

# Corporate Governance Report

With the objectives of maintaining high standards of corporate governance, the Manager is committed to certain policies and procedures to ensure that The Link REIT is well-managed and operates in a transparent manner. Set out below is a summary of the key components of the corporate governance policies that have been adopted by the Manager and The Link REIT.

## Authorisation Structure

The Link REIT is a collective investment scheme in the form of a unit trust authorised by the Securities and Futures Commission (“SFC”) under section 104 of the Securities and Futures Ordinance (Cap.571) (“SFO”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “REIT Code”). The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr SO Hing Woh Victor, an Executive Director and Chief Executive Officer and Mr HO Kam Por Simon, the Compliance Manager, are the Responsible Officers of the Manager pursuant to the requirements of section 125 of the SFO and Rule 5.4 of the REIT Code.

HSBC Institutional Trust Services (Asia) Limited is the Trustee of The Link REIT. The Trustee is registered as a trust company under section 77 of the Trustee Ordinance and is qualified to act as a trustee for collective investment schemes under the SFO and the REIT Code.

## Roles of the Trustee and the Manager

As The Link REIT has been structured with an internal manager, the Trustee is the owner of all the shares of the Manager, which are held in trust for the benefit of unitholders. However, the Trustee and the Manager are functionally independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of The Link REIT on behalf of unitholders. The Manager’s role under the Trust Deed is to manage The Link REIT in accordance with the Trust Deed and, in particular, to ensure that The Link REIT’s assets are professionally managed in the sole interests of the unitholders.

## Board of Directors of the Manager and its Roles

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of nine Directors and a maximum of 14 Directors. Pursuant to the Manager’s corporate governance policy, at least half of the Directors are required to be Independent Non-executive Directors. At present, the Board comprises 12 members, nine of whom are Independent Non-executive Directors. Independent Non-executive Directors are appointed for an initial term of three years and one-third of them are subject to retirement at each annual general meeting of the Manager on rotation. Independent Non-executive Directors will be eligible for re-appointment up to a maximum period in office of six years. Two Non-executive Directors, Mr LIEW Mun Leong and Mr PUA Seck Guan, who were appointed pursuant to the Co-operation Agreement and its supplemental signed between the Manager and CapitaLand Limited on 27 August 2004 and 26 October 2005 respectively and the Executive Director, Mr SO Hing Woh Victor, are not subject to the retirement by rotation.

The composition of the Board is determined on the following principles:

- the Chairman of the Board should be an Independent Non-executive Director;
- the Board should comprise Directors with a broad range of commercial experience, including expertise in funds management and the property industry; and
- at least one half of the Board should comprise Independent Non-executive Directors.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board principally oversees the day-to-day management of the Manager's affairs and the conduct of its business and is responsible for the overall governance of the Manager. The Board function is largely separate from, and independent of, the executive management function. The Board leads and guides the Manager's corporate strategy and direction. It exercises the general powers within the limits defined by the Articles of Association, with a view to ensuring that management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the Manager.

The roles of the key members of the Board are as follows:

- Chairman — an Independent Non-executive Director, responsible for the overall leadership of the Board and the Manager generally.

- Chief Executive Officer — responsible for the day-to-day operations of the Manager and for supervising the Manager's management team to ensure that The Link REIT operates in accordance with its stated strategies, policies and regulations.
- Independent Non-executive Directors — responsible for governing the Manager through the Board.

The positions of Chairman and Chief Executive Officer are held by two different persons, namely, Mr CHENG Ming Fun Paul and Mr SO Hing Woh Victor, respectively, in order to maintain an effective segregation of duties.

A total of 10 full Board meetings were held during the relevant financial period with an average attendance rate of 80%.

The Board acknowledged its responsibility for preparing the accounts of The Link REIT.

Subject to the matters specially reserved to the Board, the Board has established various Board committees to assist it in the discharging of its responsibilities. Details of these committees are set out below:

#### **Audit Committee**

The Audit Committee is comprised solely of Independent Non-executive Directors, namely, Dr FUNG Yuk Bun Patrick, Dr LEE Nai Shee Harry and Dr ZEMAN Allen. Dr. FUNG Yuk Bun Patrick is the Chairman. It reviews the completeness, accuracy, clarity and fairness of The Link REIT's financial statements and considers the scope, approach and nature of internal and external audit reviews. The Audit Committee is responsible to the Board for ensuring the quality and integrity of internal controls and the management of risk. It also

recommends the appointment of external auditors, reviews their reports and guides management to take appropriate actions to remedy faults or deficiencies identified. The Audit Committee is also responsible for reviewing and monitoring connected party transactions.

The Audit Committee held a meeting on 22 June 2006 to consider and review the 2005/2006 financial results of The Link REIT as well as internal controls, risk assessment and compliance matters relating to The Link REIT. In particular, it reviewed connected party transactions during the Relevant Period (from the listing date on 25 November 2005 to 31 March 2006) and confirmed that such transactions were entered into in accordance with the REIT Code and the internal control system established by the Manager and are at arm's length on normal commercial terms. The attendance at that meeting was 100%.

#### **Finance and Investment Committee**

The Finance and Investment Committee comprises six members, Independent Non-executive Directors namely Mr SUN Patrick, Mr ARNOLD Michael Ian, Mr CHAO Tse Hou Leslie; the other three members are Mr LIEW Mun Leong, a Non-executive Director, Mr SO Hing Woh Victor, an Executive Director and the Chief Executive Officer and Mr PANG Pui Yin Thomas, Director (Finance). Mr SUN Patrick is the Chairman. The committee is responsible for evaluating and making recommendations on proposed acquisitions and/or disposals of assets, reviewing budgets and making recommendations to the Board on all key items of expenditure and reviewing the quarterly financial performance, forecasts and annual financial plan of the Manager and The Link REIT. It also reviews and recommends changes to financial authorities, policies or procedures in areas such as accounting, tax, treasury,

dividend payout, investment appraisal, management and statutory reporting. The Finance and Investment Committee considered the budget for the 2006/2007 financial year and reviewed the financial performance with respect to the 2005/2006 financial year. A total of three meetings were held during the relevant financial period with an average attendance rate of 72%.

#### **Human Resources and Compensation Committee**

The Human Resources and Compensation Committee comprises five members, Independent Non-executive Directors namely Mr ARNOLD Michael Ian, Mr SUN Patrick and Mr KO Kam Chuen Stanley; Mr LIEW Mun Leong, a Non-executive Director and Mr SO Hing Woh Victor, an Executive Director and the Chief Executive Officer. Mr ARNOLD Michael Ian is the Chairman. The Human Resources and Compensation Committee reviews and recommends the policies on remuneration, terms and conditions of employment of all staff and Directors other than the members of the committee, whose terms and conditions of employment and remuneration are considered by the Board. It also recommends the manpower deployment plan including the succession plan for management and the Board. The Human Resources and Compensation Committee held a meeting on 13 March 2006 to review the organisation structure, manpower plan for 2006/2007 and other related issues. The attendance at that meeting was 80%.

#### **Nomination Committee**

The Nomination Committee comprises five members, Independent Non-executive Directors namely Mr CHENG Ming Fun Paul, Mr ARNOLD Michael Ian, Mr LEE Nai Shee Harry and Mr CHOW Wing Kin Anthony; and Mr SO Hing Woh Victor, an Executive Director and the Chief Executive Officer.

Mr CHENG Ming Fun Paul is the Chairman. The committee is responsible for reviewing the structure, size and composition of the Board and its committees on an ongoing basis and for nominating, and providing recommendations on, the appointment and re-appointment of Directors. The Nomination Committee is also responsible for proposing Directors for removal from the Board. If a member of the Nomination Committee is subject to re-appointment or removal, then such Director will abstain from participating in such discussions.

#### **Disclosure Committee**

The Disclosure Committee comprises five members, Independent Non-executive Directors namely Mr CHENG Ming Fun Paul, Mr CHOW Wing Kin Anthony; Mr PUA Seck Guan, a Non-executive Director, Mr SO Hing Woh Victor, an Executive Director and the Chief Executive Officer, and Mr PANG Pui Yin Thomas, Director (Finance). Mr CHENG Ming Fun Paul is the Chairman. The Disclosure Committee is responsible for reviewing information for disclosure to unitholders such as annual reports, semi-annual reports and circulars, and the dissemination of information to the public such as press releases and public announcements, and ensuring their accuracy, clarity, completeness and currency. It is also responsible for reviewing periodic and current reports, proxy statements and statutory filings with regulatory bodies. The Disclosure Committee held a meeting on 26 June 2006 to review and consider the accuracy and completeness of the annual report of The Link REIT for the financial year ended 31 March 2006 and to ensure compliance with applicable legal and regulatory requirements. The attendance at that meeting was 80%.

#### **Review of Internal Controls and Assessment of Business Risk**

The Board has reviewed the financial performance of The Link REIT against an approved budget and outlined the budget for the coming year. A high level risk assessment has been conducted to identify the key risk factors. An internal audit plan has been developed to review and monitor the on-going effectiveness of risk control. The Board has also accepted the compliance report examined and endorsed by the Audit Committee.

#### **General Meetings**

The Link REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The Trustee and the Manager may at any time convene a meeting of unitholders. The Manager will also convene a meeting if requested in writing by not less than two unitholders registered as together holding not less than 10% of the issued and outstanding units. Not less than 21 days' notice of every general meeting will be given to unitholders and the notice shall specify the place, day and hour of the meeting and the proposed resolutions for consideration at such meeting. Two or more unitholders present in person or by proxy registered as holding together not less than 10% of the units for the time being in issue and outstanding shall form a quorum for the transaction of business, except for the purpose of passing a special resolution. The quorum for passing a special resolution shall be two or more unitholders present in person or by proxy registered as holding together not less than 25% of the units in issue and outstanding.

Unitholders shall be prohibited from voting their own units at, or being counted in the quorum for, a meeting at which they have a material interest in the business to be conducted and that interest is different from the interests of other unitholders.

At any meeting, a resolution put to the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting.

The first annual general meeting of The Link REIT will be held on 23 August 2006.

#### Matters to be Decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of unitholders by way of special resolution. Such matters include:

- (a) disposal of any real estate properties forming part of the assets of The Link REIT within two years of acquisition of such properties;
- (b) disposal by the Trustee of all or any of the Manager's shares;
- (c) any increase in the maximum percentage rate or change to the structure of the Trustee's fees;
- (d) any modifications of the Trust Deed, save in certain circumstances specified in the Trust Deed; and
- (e) termination or merger of The Link REIT.

Under certain circumstances, unitholders may by special resolution remove the Trustee and/or the Manager.

#### Appointment and Removal of Directors

Directors may be nominated for appointment and/or removal by (i) the Board of Directors following a recommendation made by the Nomination Committee; or (ii) any unitholder in accordance with the terms of the Trust Deed. Upon receipt of a valid request from unitholders pursuant to the terms of the Trust Deed, the Manager, in its capacity as Manager of The Link REIT, must convene a meeting of unitholders for the purpose of seeking the approval of unitholders for any proposed appointment or removal of Directors by way of ordinary resolution. The quorum for such general meeting of unitholders to consider the appointment or removal of a Director as approved and recommended by the Nomination Committee is two or more unitholders present in person or by proxy registered as holding not less than 10 per cent of the units for the time being issued and outstanding whilst the quorum where the person has not been approved and recommended by the Nomination Committee is two or more unitholders present in person or by proxy registered as holding not less than 25 per cent of the units for the time being issued and outstanding. Unitholders have the right to remove an incumbent Director. A Director may also be removed from office if served with a notice of removal signed by all the other Directors. An outgoing Director must abstain from voting in respect of a resolution proposed at a Board meeting in respect of the appointment of his successor.

#### Reporting and Transparency

The Link REIT will prepare its financial statements in accordance with the Hong Kong Financial Reporting Standards with a financial year end of 31 March and a financial half-year end of 30 September. In accordance with the REIT Code, the annual report and financial statements for The Link REIT will be

published and sent to unitholders no later than four months following each financial year end and the interim results no later than two months following each financial half-year end.

As required by the REIT Code, the Manager will ensure that public announcements of material information and developments with respect to The Link REIT will be made on a timely basis in order to keep unitholders apprised of the position of The Link REIT.

#### Issues of further units post-listing

Further issues of units of The Link REIT will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of units be first offered on a pro rata pre-emptive basis to existing unitholders except that units may be issued (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of units in issue at the end of the previous financial year; (ii) as consideration for the acquisition of additional real estate; and (iii) free of pre-emption rights in other circumstances provided that the approval of unitholders by way of an ordinary resolution is obtained. The Manager and The Link REIT will also observe the restrictions in the REIT Code which prevent issues of new units to connected persons unless specifically approved by unitholders.

The Link REIT has not issued any new unit during the Relevant Period.

#### Distribution and Payments

Pursuant to the Trust Deed, The Link REIT is required to ensure that the total amount distributed to unitholders as dividends will be

no less than 90 per cent of its Total Distributable Income (as defined in the Trust Deed) for each financial year. However, the Manager's policy is to distribute to unitholders as dividends an amount equal to 100 per cent of The Link REIT's Total Distributable Income for each financial year.

The amount that will be distributed to unitholders as a dividend for the Relevant Period is HK\$0.2181 per unit.

#### Interests In and Dealings In Securities of The Link REIT by the Directors and Senior Executives of the Manager

To monitor and supervise any dealings in the securities of The Link REIT by the Directors and senior executives of the Manager and their respective associates, the Manager has adopted a code governing dealings in the securities of The Link REIT by Directors and senior executives of the Manager which contains rules on dealings by the Directors and senior executives of the Manager, and their respective associated parties, equivalent to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules. Pursuant to this code, Directors and senior executives of the Manager wishing to deal in the securities of The Link REIT must first have regard to provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct. In addition, there are occasions where Directors and senior executives of the Manager cannot deal in the securities of The Link REIT even though the requirements of the SFO, if it applied, would not be contravened.

Directors or senior executives of the Manager who are aware of or privy to: (i) any negotiations or agreements related to intended acquisitions or disposals which are significant transactions; (ii) or any price-sensitive information, must refrain from dealing in the securities of The Link REIT as soon as they become aware of them or privy to them until proper disclosure of the information, in accordance with the REIT Code and any applicable Listing Rules, is made. Directors or senior executives of the Manager who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors and senior executives of the Manager who are not so privy that there may be unpublished price-sensitive information and that they must not deal in The Link REIT's securities for a similar period.

During the period commencing one month immediately preceding the earlier of the date of the Board meeting for the approval of The Link REIT's results for any period and the deadline for The Link REIT to publish an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, a Director and senior executive must not deal in the securities of The Link REIT unless the circumstances are exceptional and a written acknowledgement and approval has been obtained according to the procedures set out in the code adopted.

Effective from 16 February 2006, the Manager has, at the request of the SFC, amended the Trust Deed to adopt the disclosure of interests regime and the relevant provisions of Part XV of the SFO. Accordingly, the relevant provisions of Part XV of the SFO shall be deemed to apply to The Link REIT as if The Link REIT is a company with its shares listed on the Stock Exchange. Accordingly, any

person who is interested (or has a short position of) in 5 per cent or more of the units of The Link REIT in issue will have a notifiable interest and a duty of disclosure in respect of any acquisition of, cessation of or changes in such interest or short position. The Manager is keeping a register for this purpose and the register is available for inspection by unitholders during business hours upon reasonable notice to the Manager.

The Directors have confirmed that they have complied with the required standard set out in the adopted code governing dealings in the securities of The Link REIT.

Upon the issuance of units of The Link REIT pursuant to its initial public offering in November 2005, the Manager repurchased the two founder units of The Link REIT at their issue price, for cancellation. The Manager has agreed not to repurchase any unit of The Link REIT unless permitted to do so by the relevant codes and guidelines issued by the SFC from time to time.

### Conflict of Interest

The Manager has instituted stringent internal procedures to monitor and deal with conflict of interest issues. In particular:

1. directors are required to report and update changes of their other directorships periodically. A register of such directorships is also maintained;
2. directors in general cannot vote on business in which they have an interest and cannot be counted in the quorum;
3. unitholders cannot vote on business in which they have a material interest which is different from the interests of other unitholders and cannot be counted in the quorum;

4. the Manager is a dedicated manager to The Link REIT and does not manage any other real estate investment trusts; and
5. all connected party transactions will be managed in accordance with the procedures set out in the REIT Code, the compliance manual, the Memorandum and Articles of Association and other relevant policies and guidelines issued for and adopted by The Link REIT.

### Compliance

During the relevant reporting period covered by this annual report, the Manager and The Link REIT has complied with the provisions of the REIT Code, the SFO, the relevant sections of the Listing Rules, the Trust Deed and the requirements and procedures laid down in the compliance manual of the Manager for use in relation to the management of The Link REIT.

### Public Float

As far as the Manager is aware, more than 25% of the issued and outstanding units of The Link REIT were held in public hands as at 31 March 2006.