Notes to the Consolidated Financial Statements

1 Corporate information

The Link REIT is a real estate investment trust (the "Trust" or "The Link REIT") constituted by a trust deed ("Trust Deed") entered into on 6 September 2005 (as amended by the First Supplemental Deed dated 4 November 2005, the Second Supplemental Deed dated 8 November 2005 and the Third Supplemental Deed dated 16 January 2006) and is an authorised unit trust under section 104 of the Securities and Futures Ordinance ("SFO"). Upon completion of the initial public offering, The Link REIT was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 25 November 2005 (the "Listing Date''). The proceeds of the initial public offering and the bank loan facility funded the acquisition of two subsidiaries from the Hong Kong Housing Authority ("HA") — The Link Management Limited (the "Manager") and The Link Holdings Limited. As a result, The Link REIT acquired the beneficial interests in the retail and carpark facilities and commenced its operations on 25 November 2005.

The principal activity of The Link REIT and its subsidiaries (the "Group") is the investment in retail and carpark operations ("RC Operations") in Hong Kong. The address of registered office of the Manager and the Trustee, HSBC Institutional Trust Services (Asia) Limited, is 18th Floor, 8 Queen's Road Central, Hong Kong, and 1 Queen's Road Central, Hong Kong, respectively.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the requirements of the Trust Deed and the relevant disclosure requirements as set out in Appendix C of the Code on Real Estate Investment Trusts established by the Securities and Futures Commission of Hong Kong (the "Code").

The Group's functional and presentational currency is Hong Kong Dollars.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are stated at fair values as explained in the principal accounting policies set out in note 3.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2 Basis of preparation *(Continued)*

Adoption of new/revised HKFRS

(a) Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards, which have been published but are not yet effective, have not been adopted in these financial statements. These are mandatory for the Group's accounting periods beginning on or after 1 April 2006.

HKAS 19 (Amendment) **Employee Benefits.** This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. As the Group does not have defined benefit schemes, HKAS 19 (Amendment) is not applicable.

HKAS 21 (Amendment) **Net Investment in a Foreign Operation.** This amendment relates to the treatment of exchange differences arising on a monetary item that forms part of an entity's net investment in a foreign operation. As the Group does not have any foreign operations, this amendment is not applicable.

HKAS 39 (Amendment) **Cash Flow Hedge Accounting of Forecast Intragroup Transactions.** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that certain conditions are met. This amendment is not relevant as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements for the period ended 31 March 2006.

HKAS 39 (Amendment) **The Fair Value Option.** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment is not relevant as the Group does not have any instruments classified at fair value through the profit or loss account in the consolidated financial statements for the period ended 31 March 2006.

2 Basis of preparation *(Continued)*

Adoption of new/revised HKFRS *(Continued)*

(a) Standards, interpretations and amendments to published standards that are not yet effective *(Continued)*

HKAS 39 and HKAS 4 (Amendment)	**Financial Guarantee Contracts.** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Manager does not believe this Amendment is relevant to the Group.
HKFRS 7 and HKAS 1 (Amendment)	**Financial Instruments: Disclosures** **Presentation of Financial Statements — Capital Disclosures.** HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposures to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning on or after 1 April 2007.
HKFRS-Int 4	**Determining Whether an Arrangement contains a Lease.** This requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangements. It requires an assessment of whether; (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets; and (b) the arrangement conveys a right to use the asset or assets. The Manager is currently assessing the impact of HKFRS-Int 4 on the Group's operations.
HKFRS 1 and HKFRS 6 (Amendment)	**First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources.** These amendments are not relevant to the Group's operations.

2 Basis of preparation *(Continued)*

Adoption of new/revised HKFRS *(Continued)*

(a) Standards, interpretations and amendments to published standards that are not yet effective *(Continued)*

HKFRS 6	**Exploration for and Evaluation of Mineral Resources.** HKFRS 6 is not relevant to the Group's operations.
HKFRS-Int 5	**Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.** These amendments are not relevant to the Group's operations.
HK(IFRIC)-Int 6	**Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.** These amendments are not relevant to the Group's operations.
HK(IFRIC)-Int 7	**Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies.** These amendments are not relevant to the Group's operations.

(b) Other HKFRS changes that are not yet effective

In addition, the Group has not adopted the following amendments (which are not yet effective) as a consequence of amendments to the Hong Kong Companies (Amendment) Ordinance 2005. These amendments principally broaden the definition of a subsidiary under the Hong Kong Companies Ordinance.

HKAS 1 (Amendment)	**Presentation of Financial Statements**
HKAS 27 (Amendment)	**Consolidated and Separate Financial Statements**
HKFRS 3 (Amendment)	**Business Combinations**

The adoption of such standards or interpretations will not result in substantial changes to the Group accounting policies.

3 Principal accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of The Link REIT and all its subsidiaries as at 31 March 2006 and the results for the financial period then ended (herein referred to as the "Group").

Subsidiaries are those entities in which The Link REIT, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Accounting policies of subsidiaries acquired have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Principal accounting policies *(Continued)*

(b) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Consistent with the Group's internal financial reporting, business segment is determined as the primary segmental reporting format. Segment assets consist primarily of tangible assets and receivables and segment liabilities mainly comprise operating liabilities. No geographical segment information has been prepared as all the properties are located within Hong Kong for the current financial period.

(c) Investment properties

A property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as an investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

An investment property is measured initially at its cost, including related transaction costs.

After initial recognition, an investment property is carried at fair value, being the amount for which the asset can be exchanged between knowledgeable, willing parties in an arm's length transaction. The carrying value of the investment property is reviewed annually, and is independently valued by external valuers.

Changes in fair value of the investment property are recognised in the income statement.

Subsequent expenditure is added to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

3 Principal accounting policies *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less accumulated impairment losses over the shorter of the estimated useful lives or their lease terms (if applicable), as follows:

Leasehold improvement	2 to 5 years
Equipment	3 to 5 years
Motor vehicles	5 years

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(e) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3 Principal accounting policies *(Continued)*

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is stated as a separate asset. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) Unitholders' funds as a financial liability

In accordance with the Trust Deed, The Link REIT is required to distribute to unitholders not less than 90% of the Group's Distributable Income for each financial period. The Trust also has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash dividends and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of the Trust less any liabilities, in accordance with their proportionate interests in the Trust at the date of the termination of the Trust. The unitholders' funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32: Financial Instruments: Disclosure and Presentation. It is shown on the balance sheet as the net assets attributable to unitholders. Distributions paid to unitholders are recognised in the income statement as part of finance costs.

(i) Payables and provisions

(i) Payables

Payables represent liabilities for amounts owing by the Group at the period end which are unpaid.

(ii) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3 Principal accounting policies *(Continued)*

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Details of recognition of operating lease rental income are set out in note 3(k) (i) below.

(k) Revenue recognition

(i) Rental income from retail properties

Operating lease rental income is recognised on a straight-line basis over the terms of lease agreements or according to the terms of the lease agreements in respect of contingent rental income (representing income over and above base rent) such as turnover rent. Lease incentives provided, such as rent-free periods, are amortised on a straight-line basis and are recognised as a reduction of rental income over the respective term of the lease.

(ii) Gross receipts from carparks

Gross receipts from carparks are recognised as revenue on an accrual basis.

(iii) Service fees and charges

Service fees and charges such as air-conditioning income arising from the provision of services are recognised when such services are rendered.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(l) Expenditure

Expenditure, including property related outgoings and other expenses, are recognised on an accrual basis.

(m) Employee benefits

Employee benefits such as wages, salaries and bonuses are recognised as an expense when the employee has rendered the service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave. Contributions to the Mandatory Provident Fund for employees are expensed as incurred.

3 Principal accounting policies *(Continued)*

(n) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

(p) External borrowings

External borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(q) Financial risk factors

The Group's activities expose it to a variety of financial risks: price risk, credit risk, interest rate risk, liquidity risk and insurable risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Price risk

The Group is exposed to property price and market rental risk because investment properties are carried at fair value. Any change in fair values is recognised in the income statement.

3 Principal accounting policies *(Continued)*

(q) Financial risk factors *(Continued)*

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Manager is of the opinion that credit risk of rental receivables are fully covered by the security deposits from corresponding tenants.

(iii) Interest rate risk

The Group has no significant interest rate risk as the Group's bank borrowings are interest bearing at predetermined rates.

(iv) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations. In addition, the Group also monitors and observes the REIT Code issued by the Securities and Futures Commission of Hong Kong concerning the leverage limits.

(v) Insurable risks

Insurance policies of the Group are reviewed regularly by independent insurance advisors and include mainly property damage all risks, business interruption and public liability insurance.

4 Critical accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4 Critical accounting estimates and judgements *(Continued)*

The fair value of each investment property is individually determined at each balance sheet date by independent valuers based on a market value assessment, on an existing use basis. The valuers have relied on the discounted cash flow analysis and the capitalisation of income approach as their primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

The carrying amounts of trade and other receivables, security deposits and other payables are assumed to approximate their fair values. The fair value is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group.

5 Revenues

Revenues recognised during the period comprise:

	HK$'M
Rental income from retail properties	968
Gross rental receipts from carparks	305
	1,273
Other revenues	
Air-conditioning service fees	80
Other property related income	1
	81
Total revenues	1,354

Lease arrangements with tenants provide for base monthly rental charges and recovery of certain outgoings. Additional rents based on business turnover ("contingent rents") apply to some leases.

Rental income included contingent rents of HK$9 million.

6 Segment information

	Retail properties	Carparks	Head office	Total
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*
Revenues	1,049	305	—	1,354
Segment results	660	153	(42)	771
Change in fair values of investment properties	1,821	128	—	1,949
Interest income				5
Finance costs on bank borrowings				(201)
Profit before taxation and transactions with unitholders				2,524
Taxation				(443)
Profit for the period, before transactions with unitholders				2,081
Capital expenditure	20	1	9	30
Depreciation	—	—	3	3
Segment assets	29,114	6,726	96	35,936
Goodwill				3,988
Short term bank deposits				453
Cash and cash equivalents				314
				40,691
Segment liabilities	509	19	92	620
Bank borrowings				12,169
Deferred tax liabilities				4,187
				16,976
Net assets attributable to unitholders				23,715

7 Property operating expenses

	HK$'M
Property managers' fees, security and cleansing	238
Staff costs *(Note 10)*	31
Government rent and rates	39
Repairs and maintenance	83
Utilities	95
Promotion and marketing expenses	20
Other property operating expenses	35
	541

8 Net profit before finance costs, taxation and transactions with unitholders

	HK$'M
Net profit before finance costs, taxation and transactions with unitholders is stated after charging:	
Staff costs *(Note 10)*	46
Depreciation of property, plant and equipment	3
Write-off of leasehold improvement	2
Strategic Partner fee	1
Trustee's remuneration	1
Valuation fee	5
Auditors' remuneration	3
Other legal and professional fees	4

9 Finance costs on bank borrowings

	HK$'M
Interest expense on bank borrowings wholly repayable within one year *(Note 18)*	201

10 Staff costs

	HK$'M
Wages and salaries	45
Contributions to Mandatory Provident Fund Scheme	1
	46

(a) Staff costs can be further analysed as below:

	HK$'M
Included under property operating expenses	31
Included under general and administration expenses	15
	46

(b) Directors' emoluments

The remuneration of directors for the period ended 31 March 2006 are set out below:

Name of Director	**Base pay, allowance, retirement scheme contribution and other benefits** *(i)* *HK$'000*	**Variable remuneration related to performance** *HK$'000*	**Total for the period ended 31 March 2006** *HK$'000*
Mr. CHENG Ming Fun Paul	104	—	104
Mr. SO Hing Woh Victor	1,907	—	1,907
Mr. NEOH Anthony Francis *(ii)*	53	—	53
Mr. ARNOLD Michael Ian	70	—	70
Mr. LEE Nai Shee Harry	70	—	70
Mr. SUN Patrick	70	—	70
Mr. ZEMAN Allan	70	—	70
Mr. FUNG Yuk Bun Patrick	70	—	70
Mr. KO Kam Chuen Stanley	70	—	70
Mr. CHAO Tse Hou Leslie	70	—	70
Mr. LIEW Mun Leong	—	—	—
Mr. PUA Seck Guan	—	—	—

10 Staff costs *(Continued)*

(b) Directors' emoluments *(Continued)*

Notes:

(i) Other benefits include leave pay, insurance premium and club membership fee.

(ii) Resigned on 1 March 2006.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the period include one director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals during the period are as follows:

	HK$'M
Basic salaries, other allowances and benefits in kind	3

The emoluments of the five individuals fell within the following bands:

Emoluments bands	
Nil — HK$500,000	1
HK$500,001 — HK$1,000,000	3
HK$1,500,001 — HK$2,000,000	1

11 Taxation

Current taxation has not been provided as the Group has no estimated assessable profit for the period.

The amount of taxation charged to the consolidated income statement represents:

	HK$'M
Current taxation	—
Deferred taxation	443
	443

11 Taxation *(Continued)*

The differences between the Group's expected tax charge, using the Hong Kong profits tax rate, and the Group's taxation for the period were as follows:

	HK$'M
Profit before taxation	2,524
Expected tax calculated at the Hong Kong profits tax rate of 17.5%	442
Tax effect of non-deductible expenses	2
Tax effect of non-taxable income	(1)
Taxation	443

12 Earnings per unit based upon profit after taxation before transactions with unitholders

The earnings per unit, based upon profit before transactions with unitholders for the period from 6 September 2005 (date of establishment) to 31 March 2006, is HK$0.97. For the period from 6 September 2005 to the Listing Date, The Link REIT had not commenced its operations and no unit was in issue until 25 November 2005.

Diluted earnings per unit is not presented as there is no dilutive instrument throughout the period from 6 September 2005 to 31 March 2006.

Profit for the period, before transactions with unitholders	HK$2,081 million
Number of units outstanding at the end of the period	2,137,454,000
Earnings per unit based on profit after taxation, before transactions with unitholders	HK$0.97

13 Distributions

	HK$'M
Profit after taxation for the period from 6 September 2005 (date of establishment) to 31 March 2006, attributable to unitholders	2,081
Adjustments:	
Change in fair values of investment properties	(1,949)
Deferred taxation on change in fair values	341
Other non-cash income	(6)
Total Distributable Income for the period from 6 September 2005 (date of establishment) to 31 March 2006	467
Distributable Amount for the period, to be paid to unitholders	467
As a percentage of Total Distributable Income	100%
Distribution per unit	21.81 HK cents

14 Investment properties

(a) Details of the movements of investment properties are as follows:

	Retail properties *HK$'M*	**Carparks** *HK$'M*	**Total** *HK$M*
At beginning of the financial period	—	—	—
Acquisition of RC Operations *(Note 22)*	27,257	6,545	33,802
Additions	20	1	21
Change in fair values	1,821	128	1,949
At end of the financial period	29,098	6,674	35,772

(b) Government leases

The properties included as investment properties on the balance sheet comprise properties where the Group has legal title under government leases for a fixed number of years (with renewal rights in one case), and other properties where the granting of the government leases and legal title is in progress. The government lease profile of these properties with Government Leases granted range from 37 to 51 years.

14 Investment properties *(Continued)*

(b) Government leases *(Continued)*

By virtue of the Property Agreement with the HA in respect of the acquisition of the retail and carpark operations, the Group as the beneficial owner, is legally entitled to operate all these properties as if it was the legal and beneficial owner.

(c) Fair values

The investment properties were revalued on a market value basis as at 31 March 2006, by CB Richard Ellis Limited ("CBRE"), an independent firm of professional qualified valuers.

To arrive at the market valuations of the investment properties, CBRE valued each property individually at market value as of 31 March 2006, on assessments using a number of valuation methodologies, as further set out in note 4. In arriving at the market values, CBRE has assumed, inter alia, that legal titles to the properties are in place as of the property valuation date, notwithstanding that legal titles to certain of the properties have not been granted as of the balance sheet date.

(d) REIT Code restrictions

In accordance with the REIT Code, the Group is prohibited from disposing of its properties for at least two years from the time such properties are acquired, unless the unitholders have passed a special resolution consenting to the proposed disposal.

15 Property, plant and equipment

	Leasehold improvement	**Motor vehicles**	**Equipment**	**Total**
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*
At beginning of the financial period	—	—	—	—
Acquisition of RC Operations *(Note 22)*	3	2	23	28
Additions	4	—	5	9
Write-off	(2)	—	—	(2)
Depreciation charge for the period	(1)	—	(2)	(3)
Closing net book amount	4	2	26	32
At 31 March 2006				
Cost	5	2	28	35
Accumulated depreciation	(1)	—	(2)	(3)
Net book value	4	2	26	32

16 Accounts and other receivables

	HK$'M
Accounts receivable *(i)*	66
Amount due from the Hong Kong Housing Authority (HA), net *(ii)*	37
Other receivables	19
	122

(i) Receivables are denominated in Hong Kong dollars and the carrying amounts of these rental receivables approximate their fair values.

A majority of the Group's rental income is received in cash and there is no specific credit terms given to the tenants. The accounts receivable are generally fully covered by the rental deposits from corresponding tenants.

	HK$'M
0 — 30 days	64
31 — 90 days	2
	66

Monthly rental in respect of retail properties are payable in advance by tenants in accordance with the leasing agreements while monthly gross receipts from carparks are received from the carpark operators in arrear.

(ii) The net amount due from the HA can be further analysed as follows:

	HK$'M
Improvement project expenditures receivable *(a)*	48
Other receivables *(b)*	39
Payables *(c)*	(50)
	37

(a) The HA had carried out a number of improvement projects prior to the divestment of the RC Operations to The Link REIT. Certain of these expenditures were billed by the suppliers post divestment and were paid by The Link REIT on behalf of the HA. The amounts are included as receivables from the HA at the balance sheet date.

16 Accounts and other receivables *(Continued)*

(ii) *(Continued)*

(b) Prior to the divestment, the HA had received certain advance rents and tenancy deposits on The Link REIT's behalf. The total amount is approximately HK$31 million and is included as receivable from the HA. In addition, pursuant to the sale and purchase agreement in respect of the divestment of the RC Operations, any amounts determined to be due upon finalisation of the completion statement ("apportionment ledger") shall be agreed by both parties within a specified period after the divestment. An amount of HK$8 million in respect of the apportionment ledger is also included as receivable from the HA.

(c) The HA and The Link REIT have entered into a service level agreement pursuant to which the HA continues to provide The Link REIT with certain operational support after the divestment of the RC Operations. The service level agreement is intended to be a transitional arrangement and will be completely phased out as and when the relevant supporting services are assumed by the Manager and are no longer required to be provided by the HA. At 31 March 2006, the outstanding amount payable to the HA comprises the property service providers' fees to be reimbursed to the HA under the service level agreement.

(d) The amounts receivable and payable are unsecured, interest free and repayable on demand.

17 Cash and cash equivalents and short-term deposits

	HK$'M
Cash on hand	2
Cash at bank	9
Short-term bank deposits with original maturity less than 3 months	303
Cash and cash equivalents	314
Short-term bank deposits with original maturity more than 3 months	453
	767

Short-term bank deposits at the balance sheet date mature approximately 66 days from the end of the financial period. The effective interest rate at the balance sheet date is 4.07% per annum.

18 Bank borrowings

	HK$'M
Current	
Unsecured one year bridging loan facility	12,169

A fixed rate bank loan facility of HK$12.5 billion with a maturity of 1 year was entered into on 4 November 2005. The loan facility granted to The Link Finance Limited, a subsidiary of the Group, is jointly and severally guaranteed by The Link Holdings Limited and The Link Properties Limited, also subsidiaries of the Group. The Trustee also executed a separate guarantee in favour of the banks providing the facility in relation to the obligations of The Link Finance Limited. The maximum amount guaranteed by the Trustee would be limited to the extent of the Deposited Property, defined as the value of all the gross assets of The Link REIT. An initial drawdown of HK$12,169 million was made on the listing date to fund the acquisition of the retail and carpark operations.

The effective interest rate of the bank borrowings at the balance sheet date was 4.74%. The carrying amounts of the borrowings approximate their fair values.

The undrawn portion of the facility amounted to HK$331 million as at 31 March 2006.

19 Deferred tax liabilities

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

Analysis of net deferred tax liabilities:

	HK$'M
Deferred tax assets	(173)
Deferred tax liabilities	4,360
	4,187

19 Deferred tax liabilities *(Continued)*

The movements in deferred tax assets and liabilities during the period were as follows:

	Temporary differences	**Tax losses**	**Total**
	HK$'M	*HK$'M*	*HK$'M*
Balance at beginning of the financial period	—	—	—
Acquisition of RC Operations *(Note 22)*	3,744	—	3,744
Recognised in the income statement:			
Increase in fair values	341		341
Capital allowance claimed	275		275
Tax losses recognised		(173)	(173)
			443
Balance at end of the financial period	4,360	(173)	4,187

20 Notes to the cash flow statement

Net cash inflow generated from operations

	HK$'M
Profit before taxation and transactions with unitholders	2,524
Depreciation expenses	3
Write-off of leasehold improvement	2
Interest income	(5)
Finance costs on bank borrowings	201
Change in fair values of investment properties	(1,949)
Increase in accounts and other receivables, deposits and prepayment	(119)
Increase in receipts in advance, accruals and other payables	252
Increase in security deposits	29
Net cash inflow generated from operations	938

21 Units in issue

	The Link REIT
Units created, at initial public offering	2,137,454,000
Units at end of the financial period	2,137,454,000

The Trust issued 1,403,465,000 units to institutional investors and 733,989,000 units to retail investors on 25 November 2005 at HK$10.30 and HK$9.78 per unit respectively upon initial public offering. The total proceeds from the public offering is HK$21,634 million and issuance costs in connection with the units are borne by the HA.

Traded market value of the units as of 31 March 2006 was HK$16.80 per unit. Based on 2,137,454,000 units, market capitalisation was HK$35,909 million.

22 Business combination

On 25 November 2005, The Link REIT acquired the retail and carpark operations from the HA. The purchase consideration payable to the HA for the retail and carpark operations was an amount equal to the proceeds from the public offering and the approximately HK$12.2 billion drawn down from the bank loan facility.

The acquired retail and carpark operations contributed revenues of HK$1,354 million and a net profit after tax of HK$2,090 million for the financial period, out of the revenues and net profit after taxation of the Group, amounting HK$1,354 million and HK$2,081 million respectively, since their acquisition date.

Details of net assets acquired and goodwill are as follows:

	HK$'M
Purchase consideration:	
— Unsecured borrowings drawn at listing date	12,169
— Fair value of units issued	21,634
Total purchase consideration	33,803
Net assets acquired — shown as below	(29,815)
Goodwill	3,988

22 Business combination *(Continued)*

The fair values and the carrying amounts of assets and liabilities arising from the acquisition are as follows:

	Fair value and carrying amount
	HK$'M
Property, plant and equipment *(Note 15)*	28
Investment properties *(Note 14) (Note)*	33,802
Cash and cash equivalents	5
Security deposits	(259)
Other net current liabilities	(17)
Deferred tax liabilities *(Note 19)*	(3,744)
Net assets acquired	29,815
Goodwill	3,988
	33,803
Purchase consideration settled in cash	33,803
Cash and cash equivalents in subsidiary acquired	(5)
Cash outflow on acquisition	33,798

Note:

The investment properties were revalued at 30 September 2005 by CB Richard Ellis Limited, independent professional qualified valuers. This approximates the fair values of the investment properties at the acquisition date.

23 Commitments

(i) Capital commitments

	HK$'M
Improvement projects to existing investment properties	
Authorised but not contracted for	84
Contracted but not provided for	116
	200

23 Commitments *(Continued)*

(ii) Operating lease commitments

At 31 March 2006, the analysis of the Group's aggregate future minimum lease rental payables under non-cancellable leases is as follows:

	HK$'M
Within 1 year	4
After 1 year, but within 5 years	2
	6

24 Connected party transactions and significant related party transactions and balances

The table set forth below summarised the names of the connected parties, as defined in the REIT Code, and nature of relationship with The Link REIT as at 31 March 2006:

Connected party	**Relationship with the Group**
HSBC Institutional Trust Services (Asia) Limited (the "Trustee") *	The Trustee of The Link REIT
The Hongkong and Shanghai Banking Corporation Limited and its associates (the "HSBC Group") *	Related parties of the Trustee
CapitaLand Limited (the "Strategic Partner") *	The Strategic Partner of The Link REIT
CB Richard Ellis Limited (the "Principal Valuer")	The Principal Valuer of The Link REIT
The Children's Investment Master Fund	A significant unitholder of The Link REIT
The Wing Hang Bank Limited	Common director

* These connected parties are also considered as the related parties of the Group, transactions and balances carried out with these related parties are disclosed in notes (a) and (b) below.

24 Connected party transactions and significant related party transactions and balances *(Continued)*

(a) Transactions with connected parties/related parties

The following transactions were carried out with connected parties/related parties:

	HK$'M
Trustee fee paid and payable to the Trustee *(i) (ii)*	(1)
Fee paid and payable to Strategic Partner *(i) (iii)*	(1)
Valuation fee paid and payable to the Principal Valuer *(i)*	(5)
Transactions with the HSBC Group *(i) (iv)*	
Interest expense to the HSBC Group on bank borrowings	(201)
Rental income from the HSBC Group on leasing of retail units	4
Interest income from the HSBC Group on short term deposits	5

Notes:

(i) All connected party transactions were carried out in accordance with the terms of the relevant agreement governing the transactions.

(ii) The Trustee is entitled to receive an annual trustee fee (calculated and paid monthly) at a rate of 0.008% per annum of the latest property value as determined in the latest annual valuation report of an independent property valuer recommended by the Manager and appointed by the Trustee for and on behalf of The Link REIT from time to time, subject to a minimum of HK$150,000 per month. Such annual trustee fee shall begin to accrue from the date of the authorisation of The Link REIT by the SFC under section 104 of the SFO and, in respect of any broken period, shall be paid on a pro-rated basis.

(iii) The Strategic Partner is entitled to receive a base fee equal to the costs and expenses reasonably incurred by the Strategic Partner in the performance of its duties and obligations under the Co-operation Agreement from the Listing Date until the termination of its appointment under the Co-operation Agreement. Such base amount is subject to a limit. The limit for the base amount for the financial period ended 31 March 2006 was US$0.5 million.

(iv) The transactions with HSBC Group were in accordance with market rates.

(v) Pursuant to a bank borrowing agreement, the Trustee executed a guarantee in favour of the banks providing the facility in relation to the obligations of the Group. Details are set out in note 18.

24 Connected party transactions and significant related party transactions and balances *(Continued)*

(b) Balances with related parties

The following balances were carried out with related parties:

	HK$'M
Bank borrowings from the HSBC Group *(Note 18)*	12,169
Short term deposits and savings placed with HSBC Group	746
Net interest payable to the HSBC Group	50
Strategic Partner fee payable to CapitaLand Limited *(Note)*	1

Note:

The balances are unsecured, interest-free and repayable on demand.

25 Future minimum rental receivables

As at 31 March 2006, the Group had future minimum rental income receivable under non-cancellable leases as follows:

	HK$'M
Within one year	1,517
Between two and five years	1,336
Later than five years	22
	2,875

Most of the operating leases are on fixed terms and for terms of 3 years.

26 Comparatives

There are no comparative figures as this is the first set of consolidated financial statements prepared for the Group since the date of its establishment.

27 Subsidiaries

The Group held the following wholly owned subsidiaries as at 31 March 2006:

Name	Place of establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital	Interest held
Directly held:				
The Link Holdings Limited	Cayman Island, limited liability company	Investment holding company in Hong Kong	US$1	100%
The Link Management Limited	Hong Kong, limited liability company	Asset management company in Hong Kong	HK$5,000,001	100%
Indirectly held:				
The Link Properties Limited	Cayman Island, limited liability company	Property holding company in Hong Kong	US$1	100%
The Link Finance Limited	Hong Kong, limited liability company	Financing company in Hong Kong	HK$1	100%

28 Approval of the financial statements

The consolidated financial statements were authorised for issue by the Manager and the Trustee on 29 June 2006.