

**CIRCULAR DATED 28 December 2011**  
**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect in this Circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your units in Fortune REIT ("Units"), you should at once hand this Circular, together with the Notice of Extraordinary General Meeting and the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Singapore Exchange Securities Trading Limited takes no responsibility for the accuracy of any statements or opinions made, or reports contained, in this Circular.

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**FORTUNE**  
置富產業信託 **REIT**

## **FORTUNE REAL ESTATE INVESTMENT TRUST**

*(constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003 (as amended) and authorised as a collective investment scheme under section 286 of the Securities and Futures Act, Chapter 289 of Singapore)*

*(a collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

*(Stock Code: Singapore: F25U and Hong Kong: 778)*

Managed by



**Asset Management (Fortune) Limited**

*(An Affiliate of Cheung Kong Group)*

# **MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND THE PROVIDENT CENTRE PROPERTY, CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS**

**Independent Financial Advisers to the Independent Board Committee and the Audit Committee of the Manager, the independent Unitholders and the Trustee**

**CIMB Bank Berhad (13491-P)**  
**Singapore Branch**

*(Incorporated in Malaysia)*  
*(in its capacity as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual)*

**CIMB Securities (HK) Limited**  
*(in its capacity as the independent financial adviser for the purposes of paragraph 10.10(p) of the Code on Real Estate Investment Trusts)*

## **Important Dates and Times for Unitholders**

Record date for the EGM	:	12 January 2012 (Close of business)
Latest date and time for lodgement of Proxy Form	:	17 January 2012 at 3:00 pm
Date and time of EGM	:	19 January 2012 at 3:00 pm
Place of EGM	:	Rooms 208-209, Level 2 Suntec Singapore International Convention and Exhibition Centre 1 Raffles Boulevard, Suntec City Singapore 039593

# The Proposed Acquisitions

Fortune REIT proposes to acquire two retail properties in Hong Kong, namely Belvedere Garden Property and Provident Centre Property.



## Belvedere Garden Property

Location	Tsuen Wan, Hong Kong
Gross Rentable Area (excluding parking lots)	276,862 sq ft
Number of parking lots	329
Occupancy rate <sup>1</sup>	98.7%
Purchase Consideration	HK\$1,250 million
Valuation by Independent Valuers <sup>1</sup>	HK\$1,300 million (by Knight Frank) HK\$1,340 million (by Savills)



## Provident Centre Property

Location	North Point, Hong Kong
Gross Rentable Area (excluding parking lots)	180,238 sq ft
Occupancy rate <sup>1</sup>	92.3%
Purchase Consideration	HK\$650 million
Valuation by Independent Valuers <sup>1</sup>	HK\$680 million (by both Knight Frank and Savills)

Note:  
(1) As at 30 September 2011



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**FORTUNE**  
置富產業信託 **REIT**

**FORTUNE REAL ESTATE INVESTMENT TRUST**

*(constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003  
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of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: Singapore: F25U and Hong Kong: 778)**

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO THE PROPOSED  
ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND THE PROVIDENT CENTRE PROPERTY,  
CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS**

**Independent Financial Advisers to the Independent Board Committee and  
the Audit Committee of the Manager, the independent Unitholders and the Trustee**



**CIMB BANK BERHAD (13491-P)  
Singapore Branch**

*(Incorporated in Malaysia)  
(in its capacity as the independent financial  
adviser for the purposes of Chapter 9  
of the Singapore Listing Manual)*

**CIMB SECURITIES (HK) LIMITED**

*(in its capacity as the independent financial adviser  
for the purposes of paragraph 10.10(p) of the Code on  
Real Estate Investment Trusts)*

A letter to the Unitholders is set out on pages 37 to 109 in this Circular.

A notice convening the EGM to be held at 3:00 p.m. on 19 January 2012, at Rooms 208-209, Level 2, Suntec Singapore International Convention and Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 is set out on pages N-1 to N-3 in this Circular. Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

<b>TABLE OF CONTENTS</b>
--------------------------

	<u>Page</u>
<b>CORPORATE INFORMATION</b> .....	1
<b>DEFINITIONS</b> .....	4
<b>SUMMARY</b> .....	23
<b>INDICATIVE TIMETABLE</b> .....	36
<b>LETTER TO THE UNITHOLDERS</b> .....	37
1. Introduction .....	37
2. The Transaction and Acquisition Facilities .....	38
3. Information on the New Properties .....	68
4. Financial Effects of the Transaction .....	79
5. Risk Factors .....	83
6. Connected Party Transactions as a result of the Transaction .....	86
7. 2011 Continuing Connected Party Transactions .....	89
8. Implications under the REIT Code and the Trust Deed .....	99
9. Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix .....	102
10. Recommendations .....	105
11. Responsibility Statements .....	107
12. Extraordinary General Meeting .....	108
13. Additional Information .....	109
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE AND THE AUDIT COMMITTEE</b> ..	IBC-1
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b> .....	IFA-1
<b>Appendix 1 : Financial Information of Fortune REIT</b> .....	A1-1
<b>Appendix 2 : Accountants' Report in respect of the Target Company and 35% Interest in Quebostar</b> .....	A2-1
<b>Appendix 3 : Pro Forma Financial Information of the Enlarged Group</b> .....	A3-1
<b>Appendix 4 : Independent Property Valuers' New Properties Valuation Reports</b> ...	A4-1
<b>Appendix 5 : Market Consultant's Report</b> .....	A5-1
<b>Appendix 6 : Existing Interested Person Transactions</b> .....	A6-1
<b>Appendix 7 : Related Tenancy and Licence Agreements</b> .....	A7-1
<b>Appendix 8 : Summary of Government Grants and Deeds of Mutual Covenant</b> ...	A8-1
<b>Appendix 9 : Structure Charts</b> .....	A9-1
<b>Appendix 10 : General Information</b> .....	A10-1
<b>NOTICE OF EXTRAORDINARY GENERAL MEETING</b> .....	N-1
<b>PROXY FORM</b> .....	P-1

<b>CORPORATE INFORMATION</b>
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<b>Fortune REIT</b>	As constituted by the Trust Deed entered into between the Trustee and the Manager, originally dated 4 July 2003 and as amended and restated from time to time.
<b>Manager</b>	ARA Asset Management (Fortune) Limited  Singapore office and registered address: 6 Temasek Boulevard #16-02 Suntec Tower Four Singapore 038986  Hong Kong office: Units 5508-5510, 55th Floor The Center 99 Queen's Road Central Hong Kong
<b>Directors of the Manager</b>	Mr. Chiu Kwok Hung, Justin ( <i>Chairman and Non-Executive Director</i> ) Mr. Lim Hwee Chiang ( <i>Non-Executive Director</i> ) Mr. Ip Tak Chuen, Edmond ( <i>Non-Executive Director</i> ) Ms. Yeung, Eirene ( <i>Non-Executive Director</i> ) Mr. Ang Meng Huat, Anthony ( <i>Executive Director and Chief Executive Officer</i> ) Ms. Chiu Yu, Justina ( <i>Executive Director and Deputy Chief Executive Officer</i> ) Mr. Lim Lee Meng ( <i>Independent Non-Executive Director</i> ) Mrs. Sng Sow-Mei (alias Poon Sow Mei) ( <i>Independent Non-Executive Director</i> ) Mr. Lan Hong Tsung, David ( <i>Independent Non-Executive Director</i> ) Mr. Ma Lai Chee, Gerald ( <i>Alternate Director to Mr. Ip Tak Chuen, Edmond</i> )
<b>Trustee</b>	HSBC Institutional Trust Services (Singapore) Limited 21 Collyer Quay #14-01 HSBC Building Singapore 049320

<b>CORPORATE INFORMATION</b>
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**Independent Financial Advisers to the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee**

*In its capacity as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code:*

CIMB Securities (HK) Limited  
Units 7706-08, Level 77  
International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

*In its capacity as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual:*

CIMB Bank Berhad, Singapore Branch  
50 Raffles Place #09-01  
Singapore Land Tower  
Singapore 048623

**Legal Advisers to the Manager**

*As to Singapore law:*  
Allen & Gledhill LLP  
One Marina Boulevard #28-00  
Singapore 018989

*As to Hong Kong law:*  
Baker & McKenzie  
23rd Floor, One Pacific Place  
88 Queensway  
Hong Kong

**Legal Advisers to the Trustee**

*As to Singapore law:*  
Rodyk & Davidson LLP  
80 Raffles Place  
#33-00 UOB Plaza 1  
Singapore 048624

*As to Hong Kong law:*  
Mayer Brown JSM  
16th-19th Floors, Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Auditors**

Deloitte Touche Tohmatsu  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

Deloitte & Touche LLP  
6 Shenton Way #32-00  
DBS Building Tower 2  
Singapore 068809

<b>CORPORATE INFORMATION</b>
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<b>Independent Property Valuers</b>	<p>Knight Frank Petty Limited 4th Floor, Shui On Centre 6-8 Harbour Road, Wanchai Hong Kong</p> <p>Savills Valuation and Professional Services Limited 23rd Floor, Two Exchange Square Central Hong Kong</p>
<b>Market Consultant</b>	<p>Savills (Hong Kong) Limited 23rd Floor, Two Exchange Square Central Hong Kong</p>
<b>Singapore Unit Registrar</b>	<p>Boardroom Corporate &amp; Advisory Services Pte. Limited 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623</p>
<b>Hong Kong Unit Registrar</b>	<p>Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong</p>



## DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, these defined terms are not included in the table below:

<b>2011 CKH/Manager CPT Waiver</b>	The conditional waiver, that Fortune REIT has applied to the SFC for, from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code as referred to in section 7.5 headed " <b>2011 Continuing Connected Party Transactions — Request for 2011 Continuing Connected Party Transactions Waiver</b> " in this Circular.
<b>2011 Continuing Connected Party Transactions</b>	The continuing connected party transactions of Fortune REIT which are described in section 7 headed " <b>2011 Continuing Connected Party Transactions</b> " in this Circular.
<b>2011 Controlling Unitholder</b>	A person who holds, directly or indirectly, 15.0% or more of the nominal amount of Units or in fact exercises control over Fortune REIT.
<b>Accountants' Report</b>	The accountants' report in respect of the Target Company and 35% interest in Quebostar as set out in Appendix 2 to this Circular.
<b>Acquisition</b>	The proposed acquisition by the Trustee, (1) from the Recoup Vendor of the Target Company pursuant to the Master Share Purchase Agreement; (2) from the CK Minority Shareholder of the CK Minority Shareholder Shares pursuant to the CK Share Purchase Agreement; (3) from the Hollingshead Minority Shareholder of the Hollingshead Minority Shareholder Shares pursuant to the Hollingshead Share Purchase Agreement; (4) from the Belvedere Garden (Remaining Portion) Vendor of the Belvedere Garden (Remaining Portion) Property pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement; and (5) from the Provident Centre Vendor of the Provident Centre Property pursuant to the Provident Centre Asset Purchase Agreement.
<b>Acquisition Facilities</b>	The New Facility and the Existing Facility.



## DEFINITIONS

<b>Acquisition Fee</b>	The acquisition fee which the Manager will be entitled to receive from Fortune REIT upon completion of the Acquisition.
<b>Acquisition Fee Units</b>	The Units which will be issued to the Manager as a form of payment of the Acquisition Fee.
<b>Affected Tenancies</b>	The Affected Tenancies comprise the tenancies of (i) Shops 101 to 108 on the First Floor and Portion on the Ground Floor of Belvedere Garden Property Phase II and (ii) Shops 123-124 and 126-151 on the First Floor of Belvedere Garden Property Phase II, the tenants of which are using the tenanted premises or parts thereof for purposes of Elderly Homes (each an " <b>Affected Tenancy</b> "). For the month ended 30 September 2011, the gross rental income of the Affected Tenancies represented 6.5% of the gross rental income of the Belvedere Garden Property, and the gross rentable area of the Affected Tenancies is about 41,737 sq. ft., representing 15.1% of the gross rentable area of the Belvedere Garden Property.
<b>Aggregate Leverage</b>	The ratio of the value of total borrowings and deferred payments (including deferred payments for assets whether to be settled in cash or in Units) to the value of the gross assets of Fortune REIT, including all its authorised investments held or deemed to be held under the Trust Deed. This definition is consistent with the definition of " <b>aggregate leverage</b> " set out in the Singapore Property Funds Appendix.
<b>ARA</b>	ARA Asset Management Limited.
<b>Asset Purchase Agreements</b>	The Belvedere Garden (Remaining Portion) Asset Purchase Agreement and the Provident Centre Asset Purchase Agreement (each an " <b>Asset Purchase Agreement</b> ").
<b>Audit Committee</b>	The audit committee of Fortune REIT comprising Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Lan Hong Tsung, David.
<b>Belvedere Garden Development</b>	The development comprising Belvedere Garden Development Phase I, Belvedere Garden Development Phase II and Belvedere Garden Development Phase III.
<b>Belvedere Garden Holding Companies</b>	The Belvedere Garden (Substantial Portion) Holding Companies and the Belvedere Garden (Remaining Portion) Holding Company.
<b>Belvedere Garden Property</b>	Comprises shops, clinics, kindergartens, a market and 329 parking lots which form the commercial portion of the Belvedere Garden Development.

## DEFINITIONS

<b>Belvedere Garden Property Phase I</b>	Comprises all of the commercial areas (shops, clinics and a kindergarten), 15 motorcycle parking spaces and 66 carparks in Belvedere Garden Development Phase I.
<b>Belvedere Garden Property Phase IA</b>	Comprises all but one of the shops in Belvedere Garden Development Phase I (with such excluded shop forming part of Belvedere Garden Property Phase IB), as well as all clinics, a kindergarten and 15 motorcycle carparks within Belvedere Garden Development Phase I. Together with Belvedere Garden Property Phase IB comprises the entire Belvedere Garden Property Phase I.
<b>Belvedere Garden Property Phase IB</b>	Comprises one shop in Belvedere Garden Development Phase I as well as 66 carparks within Belvedere Garden Development Phase I. Together with Belvedere Garden Property Phase IA comprises the entire Belvedere Garden Property Phase I.
<b>Belvedere Garden Property Phase II</b>	Comprises all of the commercial areas (shops and a kindergarten), except for a shop on the ground floor which has been assigned to The Financial Secretary Incorporation of Hong Kong, 52 carparks and common areas in Belvedere Garden Development Phase II.
<b>Belvedere Garden Property Phase III</b>	Comprises all of the commercial areas (shops, market, and a kindergarten) and 196 carparks and common areas in Belvedere Garden Development Phase III.
<b>Belvedere Garden Property Phase IIIA</b>	Comprises 19 carparks within Belvedere Garden Development Phase III. Together with Belvedere Garden Property Phase IIIB and Belvedere Garden Property Phase IIIC comprises the entire Belvedere Garden Property Phase III.
<b>Belvedere Garden Property Phase IIIB</b>	Comprises shops, a market, a kindergarten and common areas within Belvedere Garden Development Phase III. Together with Belvedere Garden Property Phase IIIA and Belvedere Garden Property Phase IIIC comprises the entire Belvedere Garden Property Phase III.
<b>Belvedere Garden Property Phase IIIC</b>	Comprises 177 carparks within Belvedere Garden Development Phase III. Together with Belvedere Garden Property Phase IIIA and Belvedere Garden Property Phase IIIB comprises the entire Belvedere Garden Property Phase III.
<b>Belvedere Garden (Remaining Portion) Asset Purchase Agreement</b>	A sale and purchase agreement entered into between the Belvedere Garden (Remaining Portion) Vendor and the Trustee, pursuant to which the Trustee intends to nominate the Belvedere Garden (Remaining Portion) Holding Company to acquire the Belvedere Garden (Remaining Portion) Property.

## DEFINITIONS

<b>Belvedere Garden (Remaining Portion) Holding Company</b>	A special purpose vehicle of Fortune REIT, to be incorporated by the Main Nominee in the British Virgin Islands, being the Property Company that will directly hold the Belvedere Garden (Remaining Portion) Property.
<b>Belvedere Garden (Remaining Portion) Property</b>	Comprises Belvedere Garden Property Phase IB and Belvedere Garden Property Phase IIIC. Together with the Belvedere Garden (Substantial Portion) Property comprises the entire Belvedere Garden Property.
<b>Belvedere Garden (Remaining Portion) Vendor</b>	Quibonet Limited, a wholly-owned subsidiary of the Recoup Vendor and a company incorporated in Hong Kong.
<b>Belvedere Garden (Substantial Portion) Holding Companies</b>	(1) The Belvedere Garden (Substantial Portion) Registered Owners; (2) Bysky Limited; and (3) Fullforce Limited, which together hold all the legal and economic interest in the Belvedere Garden (Substantial Portion) Property. Each of the Belvedere Garden (Substantial Portion) Holding Companies is a company incorporated in Hong Kong.
<b>Belvedere Garden (Substantial Portion) Property</b>	Comprises Belvedere Garden Property Phase IA, Belvedere Garden Property Phase II, Belvedere Garden Property Phase IIIA and Belvedere Garden Property Phase IIIB. Together with the Belvedere Garden (Remaining Portion) Property comprises the entire Belvedere Garden Property.
<b>Belvedere Garden (Substantial Portion) Registered Owners</b>	(1) Bysean Limited; (2) Ling Fung Development Limited; (3) Quebostar; and (4) Wilmington Land Company Limited. Each of the Belvedere Garden (Substantial Portion) Registered Owners is a company incorporated in Hong Kong.
<b>Board</b>	The board of Directors.
<b>Borrowings Assignment and Debt Transfer Deed</b>	The borrowings assignment and debt transfer deed to be entered into by the Existing Vendor Loan Lenders, HWPL, the relevant Existing Vendor Loan Borrowers and the Trustee (or a nominee of the Trustee) pursuant to the Master Share Purchase Agreement at Completion and described more particularly in section 2.4.12 headed “ <b>The Transaction and Acquisition Facilities — The Purchase Agreements — Borrowings Assignment and Debt Transfer Deed</b> ” in this Circular.
<b>Charge-Out Collections</b>	The air conditioning charges, management fees, promotional charges, government rates, government rents, utilities charges, cleaning and other charges payable by the tenants and licensees of the Properties.
<b>Cheung Kong</b>	Cheung Kong (Holdings) Limited.

## DEFINITIONS

<b>CK Minority Shareholder</b>	Cheung Kong Investment Company Limited, a company incorporated in Hong Kong.
<b>CK Minority Shareholder Shares</b>	1,500 shares of Quebostar, representing 15% of the issued share capital of Quebostar, being one of the Belvedere Garden (Substantial Portion) Holding Companies.
<b>CK Share Purchase Agreement</b>	A share purchase agreement entered into between the CK Minority Shareholder, Cheung Kong (as a guarantor) and the Trustee, pursuant to which the Trustee intends to nominate Quebo Limited to acquire the CK Minority Shareholder Shares.
<b>CKH Group</b>	Has the meaning ascribed to this term in section 7.1.1 headed " <b>2011 Continuing Connected Party Transactions — Connected Persons of Fortune REIT — CKH Group</b> " in this Circular.
<b>CKH Group Leases/Licences</b>	Has the meaning ascribed to this term in section 7.4.1(1) headed " <b>2011 Continuing Connected Party Transactions — 2011 Continuing Connected Party Transactions — Revenue Transactions — Leasing/Licensing Transactions</b> " in this Circular.
<b>Completion</b>	The completion of the Acquisition pursuant to each of the Purchase Agreements.
<b>Completion Date</b>	The date that Completion occurs, as more particularly described in section 2.4.6 headed " <b>The Transaction and Acquisition Facilities — The Purchase Agreements — Completion</b> " in this Circular.
<b>Conditions</b>	The conditions precedent to Completion.
<b>Connected Person</b>	Has the meaning ascribed to this term in the REIT Code.
<b>Connected Persons Tenancy and Licence Agreements</b>	Has the meaning ascribed to this term in section 6.7.2 headed " <b>Connected Party Transactions as a result of the Transaction — Pre-existing Agreements in respect of the New Properties — Tenancy and Licence Agreements with the CKH Group, the Manager Group and the HSBC Group</b> " in this Circular.
<b>Continuing Obligations</b>	Has the meaning ascribed to this term in section 5.4 headed " <b>Risk Factors — Failure by the Vendors to fulfil their obligations under the Purchase Agreements, the Deeds of Tax Covenant or the Deeds of Undertaking and Indemnity may have a material adverse effect on Fortune REIT's operations</b> " in this Circular.

## DEFINITIONS

<b>Deeds of Ratification and Accession</b>	The deeds of ratification and accession to be entered into by each of the Belvedere Garden Holding Companies, the Provident Centre Holding Company, the Trustee, the Manager and the Property Manager at Completion (each a <b>“Deed of Ratification and Accession”</b> ) and described more particularly in section 2.4.14 headed <b>“The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Ratification and Accession”</b> in this Circular.
<b>Deeds of Tax Covenant</b>	The deeds of tax covenant to be entered into by (1) the Recoup Vendor and HWL (as a guarantor), and (2) the CK Minority Shareholder and Cheung Kong (as a guarantor), in each case, in favour of the Trustee, pursuant to the applicable Share Purchase Agreement at Completion (each a <b>“Deed of Tax Covenant”</b> ) and described more particularly in section 2.4.9 headed <b>“The Transaction and Acquisition Facilities – The Purchase Agreements – Deeds of Tax Covenant”</b> in this Circular.
<b>Deeds of Undertaking and Indemnity</b>	The deeds of undertaking and indemnity to be entered into by (1) the Recoup Vendor and HWL (as a guarantor) and (2) the CK Minority Shareholder and Cheung Kong (as a guarantor), in each case, in favour of the Trustee, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited pursuant to the applicable Share Purchase Agreement at Completion (each a <b>“Deed of Undertaking and Indemnity”</b> ) and described more particularly in section 2.4.10 headed <b>“The Transaction and Acquisition Facilities – The Purchase Agreements – Deeds of Undertaking and Indemnity”</b> in this Circular.
<b>Deposited Property</b>	The value of all the gross assets of Fortune REIT, including the Properties held in Fortune REIT’s portfolio.
<b>Deposits Deeds of Indemnity</b>	The deeds of indemnity to be entered into between (a) the Belvedere Garden (Remaining Portion) Holding Company and the Belvedere Garden (Remaining Portion) Vendor; and (b) the Provident Centre Holding Company and the Provident Centre Vendor, pursuant to the respective Asset Purchase Agreement at Completion and described more particularly in section 2.4.11 headed <b>“The Transaction and Acquisition Facilities — The Purchase Agreements — Deposits Deeds of Indemnity”</b> in this Circular.
<b>DBS Bank</b>	DBS Bank Ltd.
<b>Directors</b>	The directors of the Manager.

## DEFINITIONS

<b>DMC</b>	Deed of mutual covenant (or an instrument of a similar nature), which is an agreement between the co-owners to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building's effective maintenance and management.
<b>DPU</b>	Distribution per Unit.
<b>Economic Benefit Sharing Arrangement</b>	The arrangements whereby irrespective of the fact that Wilmington Land Company Limited, Ling Fung Development Limited and Quebostar are, as tenants in common in the proportions of 17.81%, 31.50% and 50.69% respectively, the registered legal owners of Belvedere Garden Property Phase II, Belvedere Garden Property Phase IIIA and Belvedere Garden Phase IIIB, all the economic interest in Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA is received, held or enjoyed by Quebostar and all the economic interest in Belvedere Garden Phase IIIB is received, held or enjoyed by and among Fullforce Limited (as to 36.13%) and Bysky Limited (as to 63.87%). For the purpose of this definition, " <b>economic interest</b> " means the economic or de facto ownership, enjoyment or actual receipt of the sale proceeds and rental income and other income of whatsoever nature from the relevant properties.
<b>EGM</b>	The extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice.
<b>EGM Notice</b>	The notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the EGM Resolution.
<b>EGM Resolution</b>	The Ordinary Resolution to be passed at the EGM, as set out in the EGM Notice and explained in this Circular.
<b>Elderly Homes</b>	Elderly nursing homes or residential care homes for the elderly.
<b>Enlarged Group</b>	Fortune REIT, the Target Company, the portion of Quebostar represented by the Minority Shareholders Shares, the Belvedere Garden (Remaining Portion) Holding Company and the Provident Centre Holding Company.

## DEFINITIONS

<b>Event</b>	An event whereby at any time during the Indemnity Period, the Government or any other competent authorities gives notice to the relevant tenant of the Affected Tenancy and/or Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited objecting to the use of the relevant premises as Elderly Homes and/or requiring or demanding Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited and/or the relevant tenant(s) of the Affected Tenancy to discontinue the use of the relevant premises as Elderly Homes.
<b>Existing CKH/Manager CPT Waiver</b>	Has the meaning ascribed to this term in section 7.2.1 headed " <b>2011 Continuing Connected Party Transactions — Existing Waivers in respect of Chapter 8 of the REIT Code — Continuing Transactions with the CKH Group and/or the Manager Group</b> " in this Circular.
<b>Existing Continuing Connected Party Transactions</b>	Has the meaning ascribed to this term in section 7.2.1 headed " <b>2011 Continuing Connected Party Transactions — Existing Waivers in respect of Chapter 8 of the REIT Code — Continuing Transactions with the CKH Group and/or the Manager Group</b> " in this Circular.
<b>Existing Facility</b>	The HK\$3,800 million facility, comprising a HK\$2,830 million term loan facility (tranche A facility) and a HK\$970 million revolving credit facility (tranche B facility) made available to the Existing Facility Borrowers by a syndicate of banks for whom Standard Chartered Bank acts as facility and security agent under the Existing Loan Agreement.
<b>Existing Facility Borrowers</b>	The Group Companies which are borrowers under the Existing Facility, including Ace Courage Limited, Art Full Resources Limited, Million Nice Development Limited, Partner Now Limited, Poko Shine Limited, Proven Effort Limited, Quick Switch Limited, Team Challenge Limited, Vision Million Limited, Waldorf Realty Limited and Yee Pang Realty Limited.
<b>Existing Loan Agreement</b>	The facility agreement dated 11 April 2011 entered into between the Existing Facility Borrowers and a syndicate of banks for whom Standard Chartered Bank acts as facility and security agent with respect to the Existing Facility.
<b>Existing Properties</b>	The 14 properties currently owned by Fortune REIT, as described in the Introduction Listing Document.
<b>Existing Property Companies</b>	The companies identified in Chart 1 — Property holding structure of Fortune REIT immediately prior to Completion in Appendix 9 headed " <b>Structure Charts</b> " to this Circular.



## DEFINITIONS

<b>Existing Trustee CPT Waiver</b>	Has the meaning ascribed to this term in section 7.2.2 headed “ <b>2011 Continuing Connected Party Transactions — Existing Waivers in respect of Chapter 8 of the REIT Code — Continuing Transactions with the Trustee Connected Persons</b> ” in this Circular.
<b>Existing Vendor Loan Borrowers</b>	The Target Company, Bysean Limited, Bysky Limited and Fullforce Limited.
<b>Existing Vendor Loan Lenders</b>	HWP Finance (Hong Kong) No. 2 Limited, a company incorporated in Hong Kong and HWP Finance Limited, a company incorporated in the British Virgin Islands.
<b>Existing Vendor Loans</b>	The unsecured and interest bearing loans advanced by HWP Finance (Hong Kong) No. 2 Limited to Bysean Limited, Bysky Limited and Fullforce Limited, and the unsecured, interest free and repayable on demand loans advanced by HWP Finance Limited to the Target Company, the aggregated total of which being HK\$421,202,713 as at 30 November 2011, being the latest practicable date for ascertaining such amount.
<b>Fortune REIT</b>	Fortune Real Estate Investment Trust.
<b>Fortune REIT Group</b>	Fortune REIT and companies or entities held or controlled by it.
<b>Full Belief</b>	Full Belief Limited, a company incorporated in the British Virgin Islands, held and controlled by Fortune REIT.
<b>Gearing Ratio</b>	The aggregate borrowings of Fortune REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property as set out in Fortune REIT’s latest published audited accounts immediately prior to such borrowing being effected (as adjusted by (a) the amount of any proposed distribution declared by the Manager since the publication of such accounts; and (b) where appropriate the latest published valuation of the assets of Fortune REIT if such valuation is published after the publication of such accounts). Pursuant to the Trust Deed and in compliance with paragraph 7.9 of the REIT Code, the Gearing Ratio of Fortune REIT shall not at any time exceed 45%.
<b>Genuine Joy</b>	Genuine Joy Limited, a company incorporated in the British Virgin Islands, held and controlled by Fortune REIT.
<b>Government</b>	The Government of the Hong Kong Special Administrative Region.

## DEFINITIONS

<b>Gross Floor Area</b>	In respect of a Property, the gross floor area of that Property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the grounds), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, refused storage and material recovery chambers, material recovery chambers, refuse storage and material recovery rooms, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service.
<b>Gross Property Revenue</b>	Gross Revenue less Charge-Out Collections and carpark revenues.
<b>Gross Rentable Area</b>	In respect of a property, that portion of the Gross Floor Area of the relevant property determined by the Property Manager at any given time to be rentable.
<b>Gross Rental Income</b>	Consists of rental income and license income due from tenancies but excludes Turnover Rent.
<b>Gross Revenue</b>	Consists of Gross Rental Income, Charge-out Collections and all other income accruing or resulting from the operation of the Properties including licence fees, Turnover Rent, carpark revenues and other revenues.
<b>Group Companies</b>	The companies which are, from time to time, directly or indirectly owned and controlled by the Trustee, and “ <b>Group Company</b> ” means any one of them.
<b>HIBOR</b>	The rate of interest offered on Hong Kong dollar loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year.
<b>HK\$</b>	Hong Kong dollars, the lawful currency of Hong Kong.
<b>HK Independent Financial Adviser</b>	CIMB Securities (HK) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and in its capacity as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code.

## DEFINITIONS

<b>Hollingshead Consideration</b>	The amount of the purchase consideration payable to the Hollingshead Minority Shareholder pursuant to the Hollingshead Share Purchase Agreement after any completion and post-completion adjustments made in accordance with the Hollingshead Share Purchase Agreement.
<b>Hollingshead Elderly Homes Indemnity Portion</b>	20% of the indemnified amount under the Deed of Undertaking and Indemnity to be entered into with the Recoup Vendor.
<b>Hollingshead Maximum Cap</b>	The maximum aggregate of the indemnified amounts payable by the Recoup Vendor in respect of the Hollingshead Tax Indemnity Portion and the Hollingshead Elderly Homes Indemnity Portion, such maximum aggregate being an amount equal to the Hollingshead Consideration.
<b>Hollingshead Minority Shareholder</b>	Hollingshead Properties Limited, a company incorporated in Hong Kong and an independent third party of Fortune REIT.
<b>Hollingshead Minority Shareholder Shares</b>	2,000 shares of Quebostar, representing 20% of the issued share capital of Quebostar, being one of the Belvedere Garden (Substantial Portion) Holding Companies.
<b>Hollingshead Share Purchase Agreement</b>	A share purchase agreement entered into between the Hollingshead Minority Shareholder and the Trustee, pursuant to which the Trustee intends to nominate Quebo Limited to acquire the Hollingshead Minority Shareholder Shares.
<b>Hollingshead Tax Indemnity Portion</b>	20% of the indemnified amount in respect of the Quebostar Liability for Taxation under the Deed of Tax Covenant to be entered into with the Recoup Vendor.
<b>Hong Kong</b>	The Hong Kong Special Administrative Region of the People's Republic of China.
<b>Hong Kong Stock Exchange</b>	The Stock Exchange of Hong Kong Limited.
<b>Hong Kong Unit Registrar</b>	Computershare Hong Kong Investor Services Limited, in its capacity as the Hong Kong unit registrar of Fortune REIT.
<b>HSBC Group</b>	Has the meaning ascribed to this term in section 7.1.3 headed "2011 Continuing Connected Party Transactions — Connected Persons of Fortune REIT — Trustee Connected Persons" in this Circular.
<b>HWL</b>	Hutchison Whampoa Limited, a company incorporated in Hong Kong.
<b>HWL Group</b>	HWL and its subsidiaries.

## DEFINITIONS

<b>HWPL</b>	Hutchison Whampoa Properties Limited, a party connected to the Recoup Vendor and a company incorporated in Hong Kong.
<b>HWPL Receivable</b>	The aggregate amount standing to the credit of the Target Company current account immediately prior to Completion as being an amount held on behalf of the Target Company by HWPL, being HK\$28,240,757 as at 30 November 2011, being the latest practicable date for ascertaining such amount.
<b>Indemnified Amount</b>	Has the meaning ascribed to this term in section 2.4.10 <b>“The Transaction and Acquisition Facilities – The Purchase Agreements – Deeds of Undertaking and Indemnity”</b> in this Circular.
<b>Indemnity Period</b>	The period during which any part of Belvedere Garden Property Phase II is being used as Elderly Homes whether before (under any tenancies which have expired) or after the date of the Master Share Purchase Agreement and the CK Share Purchase Agreement without the temporary waiver or written approval or consent of the Director of Lands / District Lands Officer TW/KT or other competent Government authority and ending at the end of three months after (i) the expiry of the relevant term of the Affected Tenancy or (ii) the early termination thereof (other than as a result of the happening of the Events), whichever is the earlier.
<b>Independent Board Committee</b>	The independent committee of the Board established to advise the independent Unitholders on the Transaction, comprising Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Lan Hong Tsung, David, being all three of the independent non-executive Directors of the Manager.
<b>Independent Financial Advisers</b>	The HK Independent Financial Adviser and the Singapore Independent Financial Adviser.
<b>Independent Property Valuers</b>	Knight Frank (appointed by the Trustee) and Savills (appointed by the Manager) (each an <b>“Independent Property Valuer”</b> ).
<b>Independent Property Valuers’ New Properties Valuation Reports</b>	The valuation reports dated 28 December 2011 issued by the Independent Property Valuers on the New Properties, the form of which is set out in Appendix 4 to this Circular.
<b>Initial CPT Waiver Period</b>	Has the meaning ascribed to this term in section 7.6 <b>“2011 Continuing Connected Party Transactions — Extensions or amendments”</b> in this Circular.

## DEFINITIONS

<b>Interested Party</b>	Means: <ul style="list-style-type: none"><li>(i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling Unitholder of Fortune REIT; or</li><li>(ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.</li></ul>
<b>Interested Party Transaction</b>	A transaction entered into with an <b>"Interested Party"</b> as governed under the Singapore Property Funds Appendix.
<b>Interested Person</b>	Means: <ul style="list-style-type: none"><li>(i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling Unitholder of Fortune REIT; or</li><li>(ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.</li></ul>
<b>Interested Person Transaction</b>	Has the meaning ascribed to it in the Singapore Listing Manual.
<b>Introduction Listing Document</b>	The listing document dated 31 March 2010 of Fortune REIT in connection with the listing of its Units by way of introduction on the Hong Kong Stock Exchange.
<b>Knight Frank</b>	Knight Frank Petty Limited.
<b>Latest Practicable Date</b>	22 December 2011, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
<b>Letter to the Unitholders</b>	The letter from the Manager to the Unitholders contained in this Circular.
<b>Long Stop Date</b>	The date that falls three months after the date of the Purchase Agreements (or such other date as the Recoup Vendor, the Minority Shareholders, the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor (as the case may be) and the Trustee may agree in writing).
<b>Main Nominee</b>	A special purpose vehicle of Fortune REIT, incorporated in the British Virgin Islands, being the Property Company that will directly hold the Target Company Shares.

## DEFINITIONS

<b>Manager</b>	ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of ARA, in its capacity as manager of Fortune REIT.
<b>Manager Group</b>	Has the meaning ascribed to this term in section 7.1.2 headed “ <b>2011 Continuing Connected Party Transactions — Connected Persons of Fortune REIT — Manager Group</b> ” in this Circular.
<b>Manager Group Leases/Licences</b>	Has the meaning ascribed to this term in section 7.4.1(1) headed “ <b>2011 Continuing Connected Party Transactions — 2011 Continuing Connected Party Transactions — Revenue Transactions — Leasing/Licensing Transactions</b> ” in this Circular.
<b>Manager’s Performance Fee</b>	An annual performance fee of 3% per annum from each of the Property Companies of the Net Property Income of the relevant Property Company.
<b>Market Consultant</b>	Savills (Hong Kong) Limited.
<b>Market Consultant’s Report</b>	The letter dated 28 December 2011 from the Market Consultant, the form of which is set out in Appendix 5 to this Circular.
<b>MAS</b>	Monetary Authority of Singapore.
<b>Master Share Purchase Agreement</b>	A share purchase agreement entered into between the Recoup Vendor, the Trustee and HWL (as a guarantor), pursuant to which the Trustee intends to nominate the Main Nominee to acquire the Target Company Shares.
<b>Minority Interests Share Purchase Agreements</b>	The CK Share Purchase Agreement and the Hollingshead Share Purchase Agreement (each a “ <b>Minority Interests Share Purchase Agreement</b> ”).
<b>Minority Shareholders</b>	The CK Minority Shareholder and the Hollingshead Minority Shareholder.
<b>Minority Shareholders Shares</b>	The CK Minority Shareholder Shares and the Hollingshead Minority Shareholder Shares.
<b>NAV</b>	Net asset value.
<b>Net Property Income</b>	Gross Revenue less Property Operating Expenses.
<b>New Annual Caps</b>	The annual monetary limits specified in section 7.7 headed “ <b>2011 Continuing Connected Party Transactions — Annual Limits</b> ” in this Circular.
<b>New Facility</b>	Has the meaning ascribed to this term in section 2.6.1 headed “ <b>The Transaction and Acquisition Facilities — Financing of the Acquisition — The New Facility</b> ” in this Circular.

## DEFINITIONS

<b>New Properties</b>	The Belvedere Garden Property and the Provident Centre Property.
<b>New Property Companies</b>	The companies identified in Chart 2 – Proposed property holding structure of Fortune REIT immediately following Completion in Appendix 9 headed “ <b>Structure Charts</b> ” to this Circular (excluding, unless the context otherwise requires, the New Facility borrower).
<b>NTA</b>	Net tangible assets.
<b>Ordinary Resolution</b>	A resolution proposed and passed as such by a majority being greater than 50% of the total number of votes cast for and against such resolution at a meeting of Unitholders duly convened under the provisions of the Trust Deed.
<b>Properties</b>	The New Properties and the Existing Properties.
<b>Property Companies</b>	The Existing Property Companies and the New Property Companies (each a “ <b>Property Company</b> ”).
<b>Property Management Agreement</b>	The property management agreement dated 7 July 2003 entered into and renewed on 1 August 2008 between the Trustee, the Manager and the Property Manager (as amended by an extension letter dated 1 August 2008).
<b>Property Manager</b>	Goodwell-Fortune Property Services Limited, an indirect wholly-owned subsidiary of Cheung Kong, a connected person of Fortune REIT and a company incorporated in Hong Kong.
<b>Property Operating Expenses</b>	Consists of all costs and expenses incurred by the Property Companies in the operation, maintenance, management and marketing of the Properties including property management fees, government rents and government rates, the Manager’s Performance Fee and other property operating expenses.
<b>Provident Centre Asset Purchase Agreement</b>	A sale and purchase agreement entered into between the Provident Centre Vendor and the Trustee pursuant to which the Trustee intends to nominate the Provident Centre Holding Company to acquire the Provident Centre Property.
<b>Provident Centre Development</b>	Has the meaning ascribed to this term in section 2.3.1 headed “ <b>The Transaction and Acquisition Facilities — Proposed Acquisition of the Provident Centre Property — Property Description</b> ”.
<b>Provident Centre Holding Company</b>	A special purpose vehicle of Fortune REIT, to be incorporated by the Main Nominee in the British Virgin Islands, being the Property Company that will directly hold the Provident Centre Property.



## DEFINITIONS

<b>Provident Centre Property</b>	Comprises the shopping centre (except for the carpark, driveways and appurtenant areas, and common areas and facilities thereof and therein) and the sub-basement of Provident Centre Development.
<b>Provident Centre Vendor</b>	Provident Commercial Investments Limited, an indirect wholly-owned subsidiary of the Recoup Vendor and a company incorporated in Hong Kong.
<b>Purchase Agreements</b>	The Share Purchase Agreements and the Asset Purchase Agreements (each a " <b>Purchase Agreement</b> ").
<b>Quebostar</b>	Quebostar Limited, a company incorporated in Hong Kong.
<b>Quebostar Liability for Taxation</b>	Has the meaning ascribed to in section 2.4.9 headed " <b>The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Tax Covenant</b> " in this Circular.
<b>Record Date</b>	Close of business on 12 January 2012.
<b>Recoup Vendor</b>	Cactus Holdings Limited, a company incorporated in the British Virgin Islands.
<b>REIT</b>	Real Estate Investment Trust.
<b>REIT Code</b>	The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
<b>Related Tenancy and Licence Agreements</b>	Has the meaning ascribed to this term in section 6.7.2 headed " <b>Connected Party Transactions as a result of the Transaction — Pre-existing Agreements in respect of the New Properties — Tenancy and Licence Agreements with the CKH Group, the Manager Group and the HSBC Group</b> " in this Circular, as further set out in section 9.3 headed " <b>Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix — Related Tenancy and Licence Agreements</b> " and Appendix 7 headed " <b>Related Tenancy and Licence Agreements</b> " to this Circular.
<b>Reorganisaton</b>	Has the meaning ascribed to this term in section 2.2.2 headed " <b>The Transaction and Acquisition Facilities — Proposed Acquisition of the Belvedere Garden Property — Current Holding Structure</b> " in this Circular.
<b>Savills</b>	Savills Valuation and Professional Services Limited.
<b>SFC</b>	The Securities and Futures Commission of Hong Kong.
<b>SFC-Authorised REIT</b>	A collective investment scheme in the nature of a real estate investment trust authorised by the SFC under Section 104 of the SFO.

## DEFINITIONS

<b>SFO</b>	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
<b>SGX-ST</b>	Singapore Exchange Securities Trading Limited.
<b>Share Purchase Agreements</b>	The Master Share Purchase Agreement and the Minority Interests Share Purchase Agreements (each a “ <b>Share Purchase Agreement</b> ”).
<b>Significant Holder</b>	Has the meaning ascribed to this term in the REIT Code.
<b>Singapore Independent Financial Adviser</b>	Singapore branch of CIMB Bank Berhad, a corporation licensed under the Banking Act (Cap. 19) of Singapore and exempted under Section 99(1) of the Securities and Futures Act (Cap. 289) of Singapore from the requirement to hold a capital markets services licence to carry on business in any regulated activity (including advising on corporate finance), and in its capacity as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual.
<b>Singapore Listing Manual</b>	The Listing Manual of the SGX-ST.
<b>Singapore Property Funds Appendix</b>	Appendix 6 of the Code on Collective Investment Schemes issued by the MAS in relation to real estate investment trusts.
<b>Singapore Unit Registrar</b>	Boardroom Corporate & Advisory Services Pte. Ltd.
<b>Standard Chartered Bank</b>	Standard Chartered Bank (Hong Kong) Limited.
<b>sq. ft.</b>	Square foot / square feet.
<b>Subject Area</b>	Has the meaning ascribed to this in section 8.6.3 headed “ <b>Implications under the REIT Code and the Trust Deed — Waiver applications and submissions made to the SFC — Submission in respect of “majority ownership and control”</b> ” in this Circular.
<b>Target Company</b>	Recoup Investments Limited, a company incorporated in the British Virgin Islands.
<b>Target Company Group</b>	The Target Company and its subsidiaries.
<b>Target Company Shares</b>	The entire issued share capital of the Target Company.
<b>Total Consideration</b>	The aggregate consideration payable by the Trustee for the Acquisition pursuant to each of the Purchase Agreements, as described more fully in section 2.4.5 headed “ <b>The Transaction and Acquisition Facilities — The Purchase Agreements — Total Consideration</b> ” in this Circular.

## DEFINITIONS

<b>Transaction</b>	Collectively: (1) the Acquisition (and the consummation of the transactions contemplated thereby); (2) the entering into and performance of the Deeds of Tax Covenant; (3) the entering into and performance of the Deeds of Undertaking and Indemnity; (4) the entering into and performance of the Deposits Deeds of Indemnity; (5) the entering into and performance of the Borrowings Assignment and Debt Transfer Deed; and (6) the entering into and performance of the Deeds of Ratification and Accession.
<b>Trust Deed</b>	The Trust Deed entered into between the Trustee and the Manager constituting Fortune REIT, originally dated 4 July 2003 and as amended, varied and supplemented from time to time.
<b>Trustee</b>	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT.
<b>Trustee Connected Persons</b>	Has the meaning ascribed to this term in section 7.1.3 headed “ <b>2011 Continuing Connected Party Transactions — Connected Persons of Fortune REIT — Trustee Connected Persons</b> ” in this Circular.
<b>Turnover Rent</b>	Rent calculated by reference to a fixed percentage of a tenant’s monthly sales turnover.
<b>Unit</b>	One undivided unit in Fortune REIT.
<b>Unitholder</b>	Any person registered as holding a Unit.
<b>Vendor</b>	(1) Under the Master Share Purchase Agreement, the Recoup Vendor; (2) under the CK Share Purchase Agreement, the CK Minority Shareholder; (3) under the Hollingshead Share Purchase Agreement, the Hollingshead Minority Shareholder; (4) under the Belvedere Garden (Remaining Portion) Asset Purchase Agreement, the Belvedere Garden (Remaining Portion) Vendor; and (5) under the Provident Centre Asset Purchase Agreement, the Provident Centre Vendor.
<b>%</b>	Per cent or percentage.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

<b>DEFINITIONS</b>
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Any discrepancies in the tables, graphs and charts between the listed amounts and totals thereof are due to rounding. Where applicable, figures and percentages are rounded to one decimal place.

## SUMMARY

*The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Words and expressions not defined herein shall have the same meaning as in the main body of this Circular unless otherwise stated. Meanings of defined terms may be found in section headed "Definitions" on pages 4 to 22 of this Circular.*

### INTRODUCTION

Fortune REIT was listed on Singapore Exchange Securities Trading Limited (the "SGX-ST") and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 12 August 2003 and 20 April 2010 respectively. The principal investment strategy of Fortune REIT is to invest in commercial properties including retail, office and industrial properties located in Hong Kong through the ownership of property companies (or other companies whose primary purpose is to hold or own properties) or directly in properties that Fortune REIT may acquire from time to time.

As at 22 December 2011 (being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular) (the "Latest Practicable Date"), Fortune REIT holds a portfolio of 14 retail malls and parking facilities in Hong Kong through the ownership of special purpose companies (the "Existing Properties").

### SUMMARY OF THE TRANSACTION

#### Overview

ARA Asset Management (Fortune) Limited, as manager of Fortune REIT (the "Manager") wishes to inform unitholders of Fortune REIT ("Unitholders") that Unitholders' approval is being sought in relation to, among other things, the following transaction, which comprises (A) the Acquisition (and the consummation of the transactions contemplated thereby); (B) the entering into and performance of the Deeds of Tax Covenant; (C) the entering into and performance of the Deeds of Undertaking and Indemnity; (D) the entering into and performance of the Deposits Deeds of Indemnity; (E) the entering into and performance of the Borrowings Assignment and Debt Transfer Deed; and (F) the entering into and performance of the Deeds of Ratification and Accession (collectively, the "Transaction"). A summary of the agreements in relation to the Transaction is set out in section 2.1 of the Letter to the Unitholders headed "The Transaction and Acquisition Facilities — Acquisition of the New Properties".

#### (A) The Acquisition

Fortune REIT proposes to acquire two properties which are located in Hong Kong, being the Belvedere Garden Property and the Provident Centre Property (collectively, the "New Properties", and the acquisition of the New Properties, the "Acquisition").

- **Belvedere Garden Property** at Nos 530-590, 620 and 625 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong (the "Belvedere Garden Property"). The Belvedere Garden Property comprises shops, clinics, kindergartens, a market and 329 parking lots of the commercial portion of the development known as "Belvedere Garden" (the "Belvedere Garden Development"). Such components of the Belvedere Garden Property represent (among other things) all the commercial areas in Belvedere Garden Development Phase I and Belvedere Garden

## SUMMARY

Development Phase III, and all of the commercial areas (except for one shop representing 3.7% of the undivided shares of the commercial area) of Belvedere Garden Development Phase II.

The Manager proposes to acquire the Belvedere Garden Property via (1) the acquisition of Recoup Investments Limited (the “**Target Company**”); (2) the acquisition of 3,500 shares of Quebostar Limited (“**Quebostar**”), representing 35% of the issued share capital of Quebostar (the “**Minority Shareholders Shares**”), being one of the Belvedere Garden (Substantial Portion) Holding Companies<sup>1</sup>; and (3) the acquisition of such portion of the Belvedere Garden Property owned by the Belvedere Garden (Remaining Portion) Vendor as at the date of the Belvedere Garden (Remaining Portion) Asset Purchase Agreement (each as defined herein) (the “**Belvedere Garden (Remaining Portion) Property**”). While Fortune REIT will be acquiring all of the Belvedere Garden Property, the remainder of the Belvedere Garden Development which Fortune REIT will not be acquiring will continue to be owned by other owners; and

- Provident Centre Property at Nos 21-53 Wharf Road, North Point, Hong Kong (“**Provident Centre Property**”). The Provident Centre Property comprises the shopping centre at the basement, ground floor, upper ground floor (but excluding carparks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the development known as “Provident Centre” (the “**Provident Centre Development**”). The Provident Centre Property represents the entire commercial area and sub-basement of the Provident Centre Development.

The Provident Centre Property will be acquired from the Provident Centre Vendor (as defined herein). While Fortune REIT will be acquiring all of the Provident Centre Property, the remainder of the Provident Centre Development which Fortune REIT will not be acquiring will also continue to be owned by other owners.

(For further details, please refer to section 2.2.2 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities — Proposed Acquisition of the Belvedere Garden Property — Current Holding Structure**” and section 2.3.2 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities — Proposed Acquisition of the Provident Centre Property — Current Holding Structure**”.)

<sup>1</sup> “**Belvedere Garden (Substantial Portion) Holding Companies**” comprises the following companies: Bysean Limited, Bysky Limited, Fullforce Limited, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited.

<b>SUMMARY</b>
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The Acquisition is considered to be (a) a major acquisition and connected party transaction for Fortune REIT under the Code on Real Estate Investment Trusts published by The Securities and Futures Commission of Hong Kong (the “SFC”) (as amended, supplemented or otherwise modified for the time being) (the “REIT Code”); (b) an Interested Person Transaction (as defined herein) under the Listing Manual of the SGX-ST (the “Singapore Listing Manual”); and (c) an Interested Party Transaction (as defined herein) under Appendix 6 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore (the “MAS”) in relation to real estate investment trusts (the “Singapore Property Funds Appendix”), with the respective vendors being as follows:

New Property	Vendor(s)
Belvedere Garden Property . . . . .	<ul style="list-style-type: none"> <li>(1) Cactus Holdings Limited, a company incorporated in the British Virgin Islands (the “Recoup Vendor”), the vendor of the Target Company (to be acquired pursuant to the Master Share Purchase Agreement (as defined herein))</li> <li>(2) Hollingshead Properties Limited (the “Hollingshead Minority Shareholder”) and Cheung Kong Investment Company Limited (the “CK Minority Shareholder” and together with the Hollingshead Minority Shareholder, the “Minority Shareholders”), the vendors of the Minority Shareholders Shares (to be acquired pursuant to the Hollingshead Share Purchase Agreement and the CK Share Purchase Agreement (each as defined herein) (collectively, the “Minority Interests Share Purchase Agreements”))</li> <li>(3) Quibonet Limited, a wholly-owned subsidiary of the Recoup Vendor (the “Belvedere Garden (Remaining Portion) Vendor”), the vendor of the Belvedere Garden (Remaining Portion) Property (to be acquired pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement (as defined herein))</li> </ul>
Provident Centre Property . . . . .	Provident Commercial Investments Limited, an indirect wholly-owned subsidiary of the Recoup Vendor (the “Provident Centre Vendor”), the vendor of the Provident Centre Property (to be acquired pursuant to the Provident Centre Asset Purchase Agreement (as defined herein))

The Master Share Purchase Agreement and the Minority Interests Share Purchase Agreements shall collectively be referred to as the “Share Purchase Agreements”, and the Belvedere Garden (Remaining Portion) Asset Purchase Agreement and the Provident Centre Asset Purchase Agreement shall collectively be referred to as the “Asset Purchase Agreements”. The Share Purchase Agreements and the Asset Purchase Agreements shall collectively be referred to as the “Purchase Agreements”.



## SUMMARY

Each of the Vendors, except the Hollingshead Minority Shareholder, is (i) a Connected Person; (ii) an Interested Person; and (iii) an Interested Party (each as defined herein), and accordingly the Acquisition and consummation of the transactions contemplated under the Purchase Agreements (except the Hollingshead Share Purchase Agreement) constitute (a) connected party transactions of Fortune REIT under paragraph 8.5 of the REIT Code; (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Singapore Listing Manual; and (c) Interested Party Transactions under paragraph 5 of the Singapore Property Funds Appendix.

(For further details, please refer to section 2.2 of the Letter to the Unitholders headed **“The Transaction and Acquisition Facilities — Proposed Acquisition of the Belvedere Garden Property”**, section 2.3 of the Letter to the Unitholders headed **“The Transaction and Acquisition Facilities — Proposed Acquisition of the Provident Centre Property”** and section 2.4 of the Letter to the Unitholders headed **“The Transaction and Acquisition Facilities — The Purchase Agreements”**.)

### **(B) Deeds of Tax Covenant**

Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, each of the relevant Vendors and Hutchison Whampoa Limited (**“HWL”**) or Cheung Kong (Holdings) Limited (**“Cheung Kong”**) (both as guarantors) (as the case may be) will, at Completion, enter into a deed of tax covenant (the **“Deeds of Tax Covenant”**) in favour of HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT (the **“Trustee”**). Pursuant to each Deed of Tax Covenant, the relevant Vendor will covenant to indemnify the Trustee in respect of potential liabilities for taxation for the period up to (and, in certain limited circumstances, after) Completion including (among others) potential liability for taxation in relation to the Economic Benefit Sharing Arrangement<sup>2</sup> and all reasonable costs and expenses properly incurred and payable by any member of the Target Company Group or the Trustee, in the case of the Deed of Tax Covenant with the Recoup Vendor, or Quebostar or the Trustee (in connection with Quebostar only), in the case of the Deed of Tax Covenant with the CK Minority Shareholder, in connection with a successful claim under the Deeds of Tax Covenant.

The limitation period for claims under each Deed of Tax Covenant is seven years from Completion Date.

Under the Deed of Tax Covenant to be entered into with the Recoup Vendor, in respect of liability for taxation to which Quebostar is subject (the **“Quebostar Liability for Taxation”**), the Recoup Vendor shall be liable for the amount of 85% of the indemnified amount payable by the Recoup Vendor in relation to the Quebostar Liability for Taxation, however 20% of such indemnified amount (the **“Hollingshead Tax Indemnity Portion”**) shall (taken together with the indemnified amounts payable under the Hollingshead Elderly Homes Indemnity Portion) be limited to an aggregate maximum amount equal to the purchase consideration (as adjusted, if applicable) payable to the Hollingshead Minority Shareholder under the Hollingshead Share Purchase Agreement. In the event that such

<sup>2</sup> **“Economic Benefit Sharing Arrangement”** means the arrangements whereby irrespective of the fact that Wilmington Land Company Limited, Ling Fung Development Limited and Quebostar are, as tenants in common in the proportions 17.81%, 31.50% and 50.69% respectively, the registered legal owners of Belvedere Garden Property Phase II, Belvedere Garden Property Phase IIIA and Belvedere Garden Phase IIIB, all the economic interest in Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA is received, held or enjoyed by Quebostar and all the economic interest in Belvedere Garden Property Phase IIIB is received, held or enjoyed by and among Fullforce Limited (as to 36.13%) and Bysky Limited (as to 63.87%). For the purpose of this definition, **“economic interest”** means the economic or de facto ownership, enjoyment or actual receipt of the sale proceeds and rental income and other income of whatsoever nature from the relevant properties.

## SUMMARY

aggregate maximum cap is reached, the Recoup Vendor's ongoing liability shall be limited solely to 65% of the indemnified amount payable by the Recoup Vendor under the Deed of Tax Covenant in relation to the Quebostar Liability for Taxation.

Under the Deed of Tax Covenant to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for the amount of 15% of the indemnified amount payable in relation to the Quebostar Liability for Taxation.

(For further details, please refer to sections 2.4.9 and 5.4 of the Letter to the Unitholders headed "**The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Tax Covenant**" and "**Risk Factors — Failure by the Vendors to fulfil their obligations under the Purchase Agreements, the Deeds of Tax Covenant or the Deeds of Undertaking and Indemnity may have a material adverse effect on Fortune REIT's operations**").

### **(C) Deeds of Undertaking and Indemnity**

Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, each of the relevant Vendor and HWL or Cheung Kong (both as guarantors) (as the case may be) will, at Completion, enter into a deed of undertaking and indemnity in favour of the Trustee, Ling Fung Development Limited<sup>3</sup>, Quebostar and Wilmington Land Company Limited<sup>4</sup> (the "**Deeds of Undertaking and Indemnity**"). Pursuant to each Deed of Undertaking and Indemnity, the relevant Vendor shall undertake to indemnify and keep Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited fully indemnified against potential fees and penalties in connection with the use of any part of Belvedere Garden Property Phase II as elderly nursing homes or residential care homes for the elderly (the "**Elderly Homes**") and any termination costs in connection with the Affected Tenancies. The Affected Tenancies comprise the tenancies of (i) Shops 101 to 108 on the First Floor and Portion on the Ground Floor of Belvedere Garden Property Phase II and of (ii) Shops 123-124 and 126-151 on the First Floor of Belvedere Garden Property Phase II, the tenants of which are using the tenanted premises or parts thereof for purposes of Elderly Homes (each an "**Affected Tenancy**"). For the month ended 30 September 2011, the gross rental income of the Affected Tenancies represented 6.5% of the gross rental income of the Belvedere Garden Property, and the gross rentable area of the Affected Tenancies is about 41,737 sq. ft., representing 15.1% of the gross rentable area of the Belvedere Garden Property.

The limitation period for claims under each Deed of Undertaking and Indemnity is the period ending at the end of three months after (i) the expiry of the relevant term of each of the Affected Tenancy or (ii) the early termination thereof, whichever is the earlier.

Under the Deed of Undertaking and Indemnity to be entered into with the Recoup Vendor, the Recoup Vendor shall be liable for 85% of the indemnified amount under such deed, however 20% of such indemnified amount (the "**Hollingshead Elderly Homes Indemnity Portion**") shall (taken together with the indemnified amounts payable under the Hollingshead Tax Indemnity Portion) be limited to a maximum amount equal to the purchase consideration (as adjusted, if applicable) payable to the Hollingshead Minority Shareholder under the Hollingshead Share Purchase Agreement. In the event that such aggregate maximum cap is reached, the Recoup Vendor's ongoing liability shall be limited solely to 65% of such indemnified amount. Under the Deed of Undertaking and Indemnity to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for 15% of the indemnified amount under such deed. Save and except as described

<sup>3</sup> Ling Fung Development Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

<sup>4</sup> Wilmington Land Company Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

## SUMMARY

above regarding the limitation as to time and amount, the indemnification obligations of the Recoup Vendor and the CK Minority Shareholder under the Deeds of Undertaking and Indemnity are not limited as to time or amount.

(For further details, please refer to sections 2.4.10 and 5.2 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities – The Purchase Agreements – Deeds of Undertaking and Indemnity**” and “**Risk Factors – Risks relating to the Affected Tenancies**”.)

### ***(D) Deposits Deeds of Indemnity***

Each of the Asset Purchase Agreements sets out that as a condition for the transfer of rental deposits held by the relevant Vendor under the relevant tenancy and licence agreements, on Completion, the Belvedere Garden (Remaining Portion) Holding Company and the Provident Centre Holding Company is each required to execute a deed of indemnity in favour of the relevant Vendor in respect of any losses and damages suffered by the relevant Vendor if the Belvedere Garden (Remaining Portion) Holding Company or the Provident Centre Holding Company fails to refund such deposits to the relevant tenants and licensees in accordance with such tenancy and licence agreements.

(For further details, please refer to section 2.4.11 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities — The Purchase Agreements — Deposits Deeds of Indemnity**”.)

### ***(E) Borrowings Assignment and Debt Transfer Deed***

Pursuant to the Master Share Purchase Agreement, the Recoup Vendor must procure that any amounts owed to or expected from any member of the Target Company Group to persons outside the Target Company Group are consolidated, repaid or transferred, as applicable, so that the only outstanding loans owed to or from any member of the Target Company Group to persons outside the Target Company Group as at Completion are the Existing Vendor Loans<sup>5</sup> and the HWPL Receivable. The lenders under the Existing Vendor Loans and HWPL are parties connected to the Recoup Vendor.

The parties have agreed to enter into a borrowings assignment and debt transfer deed on Completion (the “**Borrowings Assignment and Debt Transfer Deed**”) pursuant to which the Existing Vendor Loans will be assigned to the Trustee (or a nominee of the Trustee) on a dollar for dollar basis and the Trustee (or a nominee of the Trustee) will assume the liability for the HWPL Receivable in place of HWPL in consideration for a corresponding reduction in the consideration payable for the assignment of the Existing Vendor Loans. For the avoidance of doubt, the consideration payable for the assignment of the Existing Vendor Loans (as reduced by the amount of the HWPL Receivable) is part of the overall purchase consideration payable under the Master Share Purchase Agreement.

(For further details, please refer to section 2.4.12 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities — The Purchase Agreements — Borrowings Assignment and Debt Transfer Deed**”.)

<sup>5</sup> “**Existing Vendor Loans**” means the unsecured and interest bearing loans advanced by, HWP Finance (Hong Kong) No. 2 Limited to Bysean Limited, Bysky Limited and Fullforce Limited, and the unsecured, interest free and repayable on demand loans advanced by HWP Finance Limited to the Target Company, the aggregated total of which being HK\$421,202,713 as at 30 November 2011, being the latest practicable date for ascertaining such amount.

## SUMMARY

### **(F) Deeds of Ratification and Accession**

Upon Completion, each of the Belvedere Garden Holding Companies, the Provident Centre Holding Company, the Trustee, the Manager and Goodwell-Fortune Property Services Limited (the “**Property Manager**”) will enter into a deed of ratification and accession (the “**Deeds of Ratification and Accession**” and each, a “**Deed of Ratification and Accession**”) to the property management agreement dated 7 July 2003 entered into and renewed on 1 August 2008 between the Trustee, the Manager and the Property Manager (as amended by an extension letter dated 1 August 2008) (the “**Property Management Agreement**”).

Each of the Deeds of Ratification and Accession provide that upon Completion, the operation, maintenance, management and marketing of the New Properties will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement.

(For further details, please refer to section 2.4.14 of the Letter to the Unitholders headed “**The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Ratification and Accession**”).

### **Reasons for, and Benefits of, the Transaction**

The Manager believes that the Transaction will bring the following key benefits to Unitholders.

- (i) Based on the pro-forma financials, assuming that the New Properties had been acquired by Fortune REIT since 1 January 2011, the pro-forma enlarged distribution per Unit (“**DPU**”) of 13.66<sup>6</sup> HK cents represents a 6.7% increase from Fortune REIT’s DPU of 12.80<sup>7</sup> HK cents for the six months ended 30 June 2011.
- (ii) The New Properties will provide Fortune REIT with additional stable and growing rental cash flow, which will be beneficial to the Unitholders. The Acquisition supports the Manager’s acquisition growth strategy of owning commercial properties with high occupancy and long term growth potential.
- (iii) The Acquisition provides Unitholders with an opportunity to capitalise on the growing Hong Kong retail market while enhancing Fortune REIT’s existing property portfolio through the acquisition of two high quality assets in strategic locations. It also represents an opportunity for Fortune REIT to acquire income-producing properties below their independent valuations.
- (iv) The Acquisition will further enhance the income diversification of Fortune REIT and reduce the reliance of Fortune REIT’s income stream on any one single property. As a result of the Acquisition, the maximum contribution to Fortune REIT’s Net Property Income by any single property within Fortune REIT’s property portfolio will decrease from 27.1% to 24.0%<sup>8</sup>.

<sup>6</sup> Computed based on the distributable income of the Enlarged Group for the period ended 30 June 2011 over the number of Units issued and issuable by the Enlarged Group as at 30 June 2011.

<sup>7</sup> Actual DPU of Fortune REIT for the six months ended 30 June 2011.

<sup>8</sup> Based on the audited financials for the year ended 31 December 2010 and assuming the New Properties were acquired on 1 January 2010.

<b>SUMMARY</b>
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- (v) The Manager believes that by leveraging on Fortune REIT's strong balance sheet and the support of its core financing banks, Fortune REIT is able to efficiently utilise its available debt headroom to acquire the New Properties without having to raise new equity.

(For further details, please refer to section 2.5 of the Letter to the Unitholders headed "The Transaction and Acquisition Facilities — Reasons for, and Benefits of, the Transaction".)

### Cost of the Acquisition

The following table sets out the appraised values (as at 30 September 2011) and purchase consideration of each of the New Properties:

The New Properties	Appraised Value		Purchase Consideration
	by Knight Frank (appointed by the Trustee)	by Savills (appointed by the Manager)	
	(HK\$ million)	(HK\$ million)	(HK\$ million)
Belvedere Garden Property .....	1,300	1,340	1,250 <sup>(1)</sup>
Provident Centre Property .....	680	680	650
Total .....	<u>1,980</u>	<u>2,020</u>	<u>1,900<sup>(1)</sup></u>

Note:

- (1) Before adjustment for the net current assets/liabilities of the Target Company Group and Quebostar, as applicable, as at Completion.

The total consideration for the Belvedere Garden Property and the Provident Centre Property is HK\$1,900.0 million (subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar, as applicable, as the Completion) (the "Total Consideration"), which may be broken down as follows:

- (a) HK\$1,250.0 million in respect of the Belvedere Garden Property, comprising:
- (i) HK\$1,042,146,616 payable under the Master Share Purchase Agreement;
  - (ii) HK\$81,941,362 payable under the Hollingshead Share Purchase Agreement;
  - (iii) HK\$61,456,022 payable under the CK Share Purchase Agreement; and
  - (iv) HK\$64,456,000 payable under the Belvedere Garden (Remaining Portion) Asset Purchase Agreement; and
- (b) HK\$650.0 million in respect of the Provident Centre Property, payable under the Provident Centre Asset Purchase Agreement.

The Total Consideration is subject to the adjustments referred to in sections 2.4.1 and 2.4.2 of the Letter to the Unitholders. For the avoidance of doubt, the Total Consideration includes the consideration payable for the assignment of the Existing Vendor Loans (as reduced by the amount of the HWPL Receivable).

## SUMMARY

The total cost of the Acquisition, inclusive of the Total Consideration, the acquisition fee payable to the Manager under the trust deed entered into between the Trustee and the Manager constituting Fortune REIT dated 4 July 2003 (and as amended, varied and supplemented from time to time) (the “Trust Deed”) in respect of the Acquisition (the “Acquisition Fee”)<sup>9</sup> as well as the estimated stamp duty, professional and other fees and expenses to be incurred in connection with the Acquisition, is estimated to amount to HK\$1,949.0 million (“Total Acquisition Cost”).

(For further details, please refer to section 2.4.5 of the Letter to the Unitholders headed “The Transaction and Acquisition Facilities — The Purchase Agreements — Total Consideration” and section 2.7 of the Letter to the Unitholders headed “The Transaction and Acquisition Facilities — Fees and charges payable in relation to the Acquisition”.)

### Method of Financing

The Manager intends to finance the Total Consideration through a combination of the following:

- (1) drawdown of the term loan facility under the New Facility (as defined herein);
- (2) drawdown of a revolving credit facility under the Existing Facility (as defined herein); and
- (3) internally generated funds.

The term loan facility under the New Facility will be drawn down first, with the revolving credit facility of the Existing Facility and internally generated funds being used to finance the remainder of the Total Consideration.

Taking into consideration (1) the Total Consideration; (2) the debt headroom of Fortune REIT with a Gearing Ratio<sup>10</sup> / Aggregate Leverage<sup>11</sup> of 20.1% as at 30 September 2011; and (3) the Existing Facility available and the New Facility that will be available to Fortune REIT, the Manager is able to finance the Transaction using available bank facilities and internally generated funds. Based on the pro forma capitalisation table set out in paragraph 4.1.4 of the Letter to the Unitholders, Fortune REIT’s Gearing Ratio / Aggregate Leverage is expected to increase to approximately 26.3% immediately after the Transaction.

(For further details, please refer to section 2.6 of the Letter to the Unitholders headed “The Transaction and Acquisition Facilities — Financing of the Acquisition”.)

<sup>9</sup> The Acquisition Fee shall be payable to the Manager in undivided units in Fortune REIT (“Units”) and such Units shall not be sold within one year from their date of issue, in accordance with paragraph 5.6 of the Singapore Property Funds Appendix.

<sup>10</sup> “Gearing Ratio” means the aggregate borrowings of Fortune REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property as set out in the Fortune REIT’s latest published audited accounts immediately prior to such borrowing being effected (as adjusted by (a) the amount of any proposed distribution declared by the Manager since the publication of such accounts; and (b) where appropriate the latest published valuation of the assets of Fortune REIT if such valuation is published after the publication of such accounts). Pursuant to the Trust Deed and in compliance with paragraph 7.9 of the REIT Code, the Gearing Ratio of Fortune REIT shall not at any time exceed 45%.

<sup>11</sup> “Aggregate Leverage” means the ratio of the value of total borrowings and deferred payments (including deferred payments for assets whether to be settled in cash or in Units) to the value of the gross assets of Fortune REIT, including all its authorised investments held or deemed to be held under the Trust Deed. This definition is consistent with the definition of “aggregate leverage” set out in the Singapore Property Funds Appendix.



## SUMMARY

### Connected Party Transactions as a result of the Transactions

In connection with or following the Transaction, the Manager, the Trustee and/or the New Property Companies<sup>12</sup> have entered or will enter into a number of transactions with certain Connected Persons<sup>13</sup> of Fortune REIT. These transactions include:

- (a) certain agreements to be entered into in respect of the New Properties, comprising:
  - (1) the Purchase Agreements (other than the Hollingshead Share Purchase Agreement);
  - (2) the Deeds of Tax Covenant;
  - (3) the Deeds of Undertaking and Indemnity;
  - (4) the Deposits Deeds of Indemnity;
  - (5) the Borrowings Assignment and Debt Transfer Deed;
  - (6) the Deeds of Ratification and Accession; and
- (b) certain pre-existing agreements in respect of the New Properties, comprising:
  - (1) the Belvedere Garden (Phase I) DMC and Belvedere Garden (Phase III) Deed; and
  - (2) the Tenancy and Licence Agreements with the CKH Group, Manager Group and HSBC Group.

(For further details, please refer to section 6 of the Letter to the Unitholders headed **"Connected Party Transactions as a result of the Transaction"**.)

### 2011 Continuing Connected Party Transactions

The Manager would like to take this opportunity for Unitholders to approve a waiver in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand and the CKH Group and/or the Manager Group (each as defined herein) on the other hand. The Manager proposes a 2011 Continuing Connected Party Transactions (as defined herein) waiver package that (1) takes into account the new and/or additional continuing connected party transactions that will arise as a result of the Acquisition; and (2) replaces the Existing CKH/Manager CPT Waiver<sup>14</sup> so that the three-year waiver duration can commence afresh.

(For further details, please refer to section 7 of the Letter to the Unitholders headed **"2011 Continuing Connected Party Transactions"**.)

<sup>12</sup> **"New Property Companies"** means the companies identified in Chart 2 — Proposed property holding structure of Fortune REIT immediately following Completion) in Appendix 9 headed **"Structure Charts"** to this Circular (excluding, unless the context otherwise requires, the New Facility borrower).

<sup>13</sup> **"Connected Persons"** has the meaning ascribed to it in the REIT Code.

<sup>14</sup> **"Existing CKH/Manager CPT Waiver"** means the SFC waiver obtained by Fortune REIT from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code, in relation to the Existing Continuing Connected Party Transactions (as defined herein).

## SUMMARY

### Implications under the REIT Code and the Trust Deed

Clause 16.2.1 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including conditions of any waiver or exemption from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under paragraph 8.1 of the REIT Code, Connected Persons of Fortune REIT include, among others, a Significant Holder (that is, a holder of 10% or more of the outstanding Units) and associated companies.

Cheung Kong owns more than 10% of the outstanding Units and therefore is a Significant Holder of Fortune REIT. The CK Minority Shareholder (being one of the Minority Shareholders) is a member of the CKH Group. HWL is an "associated company" of Cheung Kong within the meaning of the REIT Code. Each of the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor is a wholly-owned subsidiary of HWL. As a result, HWL, the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor, the Provident Centre Vendor and the CK Minority Shareholder are each a Connected Person of Fortune REIT within the meaning of the REIT Code. Accordingly, each of the following constitutes a connected party transaction of Fortune REIT under paragraph 8.5 of the REIT Code:

- (1) the Acquisition and the consummation of the transactions contemplated under the Purchase Agreements (other than the Hollingshead Share Purchase Agreement);
- (2) the entering into and performance of the Deeds of Tax Covenant;
- (3) the entering into and performance of the Deeds of Undertaking and Indemnity;
- (4) the entering into and performance of the Deposits Deeds of Indemnity;
- (5) the entering into and performance of the Borrowings Assignment and Debt Transfer Deed; and
- (6) the entering into and performance of the Deeds of Ratification and Accession.

As the Total Consideration or value of the Transaction exceeds 5.0% of the latest net asset value of Fortune REIT, as disclosed in its latest published audited accounts, and adjusted for any subsequent transaction since their publication, pursuant to paragraph 8.11 of the REIT Code and the Trust Deed, each of the above transactions will require independent Unitholders' approval by way of an Ordinary Resolution at the EGM.

In addition, as the Total Consideration represents 30.7% of the total market capitalisation of Fortune REIT, based on the average closing price of Fortune REIT in the Hong Kong Stock Exchange for the five Business Days immediately preceding 23 December 2011. The Transaction also constitutes a major acquisition by Fortune REIT for the purpose of the REIT Code.

Further, as noted above the Directors propose to adopt a new waiver package for the 2011 Continuing Connected Party Transactions that will accommodate the increase in size and the number of varieties of the continuing connected party transactions of Fortune REIT following the Acquisition. Pursuant to paragraph 8.11 of the REIT Code, Fortune REIT is required to obtain the approval of independent Unitholders for the 2011 Continuing Connected Party Transactions.



## SUMMARY

(For further details, please refer to section 8 of the Letter to the Unitholders headed “Implications under the REIT Code and the Trust Deed”.)

### Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix

#### *Interested Person Transaction<sup>15</sup> and Interested Party Transaction<sup>16</sup>*

Each of the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor is a wholly-owned subsidiary of HWL. The CK Minority Shareholder (being one of the Minority Shareholders) is a member of the CKH Group. Cheung Kong, through its subsidiaries, holds approximately 49.9% of HWL, and HWL is therefore an associate of Cheung Kong. As at the Latest Practicable Date, Cheung Kong is deemed to hold an aggregate indirect interest in 525,630,684 Units (comprising 31.3% of the existing Units), of which (i) 413,074,684 Units are held by Focus Eagle Investments Limited (a wholly-owned subsidiary of Cheung Kong) and (ii) 112,556,000 Units are held by Ballston Profits Limited (a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong). As Cheung Kong has an interest in more than 15% of all outstanding Units and HWL is an associate of Cheung Kong, each of Cheung Kong and HWL is considered to be an Interested Person<sup>17</sup> of Fortune REIT for the purposes of Chapter 9 of the Singapore Listing Manual and an Interested Party<sup>18</sup> of Fortune REIT under the Singapore Property Funds Appendix. Therefore, the Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Singapore Listing Manual and an Interested Party Transaction of Fortune REIT under the Singapore Property Funds Appendix.

As Unitholders’ approval will be sought at the EGM for the Acquisitions (being Interested Person Transactions and Interested Party Transactions), Cheung Kong has undertaken that it will abstain, and will procure that each member of the CKH Group to abstain, from voting on the EGM Resolution. In addition, Cheung Kong has undertaken that it will not, and will procure that each member of the CKH Group will not, accept appointments as proxies unless specific instructions as to voting are given. Similarly, HWL has undertaken that it will abstain, and will procure that each member of the HWL Group to abstain, from voting on the EGM Resolution. In addition, HWL has undertaken that it will not, and will procure that each member of the HWL Group will not, accept appointments as proxies unless specific instructions as to voting are given.

(For further details, please refer to section 9.1 of the Letter to the Unitholders headed “Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix — Interested Person Transaction under Chapter 9 of the Singapore Listing Manual” and section 9.4 of the Letter to the Unitholders headed “Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix — Interested Party Transaction under Paragraph 5 of the Singapore Property Funds Appendix”.)

<sup>15</sup> “Interested Person Transaction” has the meaning ascribed to it in the Singapore Listing Manual.

<sup>16</sup> “Interested Party Transaction” means a transaction entered into with an “Interested Party” as governed under the Singapore Property Funds Appendix.

<sup>17</sup> “Interested Person” means:

- (i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling Unitholder of Fortune REIT; or
- (ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.

<sup>18</sup> “Interested Party” means:

- (i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling Unitholder of Fortune REIT; or
- (ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.

## SUMMARY

### ***Related Tenancy and Licence Agreements***

As at the Latest Practicable Date, the Belvedere Garden (Substantial Portion) Holding Companies, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor (as the case may be) under the Asset Purchase Agreements had entered into several Related Tenancy and Licence Agreements. The aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements is estimated at HK\$97.4 million. In approving the Transaction, Unitholders are deemed to have approved the Related Tenancy and Licence Agreements.

(For further details, please refer to section 9.3 of the Letter to the Unitholders headed “**Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix — Related Tenancy and Licence Agreements**” and section 9.5 of the Letter to the Unitholders headed “**Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix — Approval by Unitholders**”.)

### **APPROVAL SOUGHT**

The Manager seeks the approval of Unitholders for the following Ordinary Resolution<sup>19</sup> (the “**EGM Resolution**”):

THAT approval (which, where relevant, shall include approval by way of ratification) be and is hereby given for:

- (a) the Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction) and the takeover of the Related Tenancy and Licence Agreements in relation to the New Properties at Completion; and
- (b) the 2011 Continuing Connected Party Transactions together with the proposed new annual monetary limits for the financial years ending 31 December 2012, 31 December 2013 and 31 December 2014,

as more fully described in the Circular.

AND THAT authorisation be granted to the Manager, any director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Fortune REIT to give effect to all matters in relation to the Transaction and the 2011 Continuing Connected Party Transactions generally.

<sup>19</sup> “**Ordinary Resolution**” means a resolution proposed and passed as such by a majority being greater than 50% of the total number of votes cast for and against such resolution at a meeting of Unitholders duly convened under the provisions of the Trust Deed.

<b>INDICATIVE TIMETABLE</b>
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Event	Date and Time
Latest date and time for lodging transfers of Units to qualify for attending the EGM	: 12 January 2012 (4:30 p.m. for Hong Kong Unitholders / 5:00 p.m. for Singapore Unitholders)
Record Date for the EGM	: Close of business on 12 January 2012
Latest date and time for lodging proxy forms for the EGM	: 17 January 2012 at 3:00 p.m. <sup>20</sup>
Date and time of the EGM	: 19 January 2012 at 3:00 p.m.
<b>If the approvals sought at the EGM are obtained:</b>	
Target date for Completion	: To be determined by the Manager (but in any event no later than 28 March 2012)

Further announcement(s) will be made by the Manager in relation to those events which are scheduled to take place after the EGM as and when appropriate in accordance with applicable regulatory requirements.

<sup>20</sup> Proxy forms have to be lodged not less than 48 hours before the time set for the EGM.

**FORTUNE**  
置富產業信託 **REIT**

**FORTUNE REAL ESTATE INVESTMENT TRUST**

*(constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003  
(as amended) and authorised as a collective investment scheme under section 286  
of the Securities and Futures Act, Chapter 289 of Singapore)*

*(a collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: Singapore: F25U and Hong Kong: 778)**

Managed by



(An Affiliate of Cheung Kong Group)

**ARA Asset Management (Fortune) Limited**

***Directors of the Manager:***

*Non-executive Directors*

Mr. Chiu Kwok Hung, Justin (*Chairman*)  
Mr. Lim Hwee Chiang  
Mr. Ip Tak Chuen, Edmond  
Ms. Yeung, Eirene

*Executive Directors and Chief Executive Officers*

Mr. Ang Meng Huat, Anthony (*Executive Director and  
Chief Executive Officer*)  
Ms. Chiu Yu, Justina (*Executive Director and  
Deputy Chief Executive Officer*)

*Independent Non-executive Directors*

Mr. Lim Lee Meng  
Mrs. Sng Sow-Mei (alias Poon Sow Mei)  
Mr. Lan Hong Tsung, David

*Alternate Director*

Mr. Ma Lai Chee, Gerald as Alternate Director to  
Mr. Ip Tak Chuen, Edmond

*Singapore Office and  
Registered Office:*

6 Temasek Boulevard  
#16-02 Suntec Tower Four  
Singapore 038986

*Hong Kong Office:*

Units 5508-5510, 55th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

28 December 2011

To: Unitholders of Fortune REIT

Dear Sir/Madam,

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO  
THE PROPOSED ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND  
THE PROVIDENT CENTRE PROPERTY, CONTINUING CONNECTED PARTY  
TRANSACTIONS AND RELATED MATTERS**

**1. INTRODUCTION**

The purposes of this Circular are: (1) to provide you with further information in respect of, among other things, the Transaction and the 2011 Continuing Connected Party Transactions (as defined herein); (2) to set out the recommendation of the independent committee of the Board established to advise the independent Unitholders on the

## LETTER TO THE UNITHOLDERS

Transaction (the “**Independent Board Committee**”) and the audit committee of Fortune REIT (the “**Audit Committee**”) in relation thereto; (3) to set out the recommendation of the Independent Financial Advisers to the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee in relation thereto; and (4) to serve notice of the EGM.

The EGM Resolution seeks Unitholders’ approval for:

- (a) the Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction) and the takeover of the Related Tenancy and Licence Agreements in relation to the New Properties at Completion; and
- (b) the 2011 Continuing Connected Party Transactions together with the proposed new annual monetary limits for the financial years ending 31 December 2012, 31 December 2013 and 31 December 2014,

as more fully described in this Circular.

## 2. THE TRANSACTION AND ACQUISITION FACILITIES

On the date hereof, the Manager announced that the Trustee had entered into conditional agreements for the acquisition of the New Properties.

### 2.1 Acquisition of the New Properties

Certain details of each of the New Properties are as follows:

- (1) **Belvedere Garden Property** at Nos 530-590, 620 and 625 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong, comprises shops, clinics, kindergartens, a market and 329 parking lots which form the commercial portion of the development known as “**Belvedere Garden**”.
- (2) **Provident Centre Property** at Nos 21-53 Wharf Road, North Point, Hong Kong, comprises the shopping centre on the basement, ground floor, upper ground floor (but excluding carparks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the development known as “**Provident Centre**”.

Further details in relation to the New Properties are contained in section 2.2 headed “**The Transaction and Acquisition Facilities – Proposed Acquisition of the Belvedere Garden Property**”, section 2.3 headed “**The Transaction and Acquisition Facilities – Proposed Acquisition of the Provident Centre Property**”, section 3 headed “**Information on the New Properties**” and Appendix 4 headed “**Independent Property Valuers’ New Properties Valuation Reports**” to this Circular.

Property holding structure charts of Fortune REIT immediately prior to and after Completion are contained in Appendix 9 headed “**Structure Charts**” to this Circular.

<b>LETTER TO THE UNITHOLDERS</b>
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A summary of the agreements in relation to the Transaction is set out below:

<u>No.</u>	<u>Agreement</u>	<u>Summary Description of Agreement</u>	<u>Section with further details of Agreement</u>
<b>Agreements in relation to the acquisition of the Belvedere Garden Property:</b>			
(1)	Master Share Purchase Agreement	Sale and purchase agreement for the acquisition of the Recoup Vendor's interest in the Belvedere Garden (Substantial Portion) Property.	2.4.1
(2)	CK Share Purchase Agreement	Sale and purchase agreement for the acquisition of the CK Minority Shareholder Shares in the Belvedere Garden (Substantial Portion) Property.	2.4.2
(3)	Hollingshead Share Purchase Agreement	Sale and purchase agreement for the acquisition of the Hollingshead Minority Shareholder Shares in the Belvedere Garden (Substantial Portion) Property.	2.4.2
(4)	Belvedere Garden (Remaining Portion) Asset Purchase Agreement	Sale and purchase agreement for the acquisition of the Belvedere Garden (Remaining Portion) Property from the Belvedere Garden (Remaining Portion) Vendor.	2.4.3
(5)	Deeds of Tax Covenant	Deeds of tax covenant provided by (1) the Recoup Vendor and HWL (as a guarantor), and (2) the CK Minority Shareholder and Cheung Kong (as a guarantor), in each case, in favour of the Trustee in respect of potential liabilities for taxation for the period up to (and, in certain limited circumstances, after) Completion.	2.4.9

<b>LETTER TO THE UNITHOLDERS</b>
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No.	Agreement	Summary Description of Agreement	Section with further details of Agreement
(6)	Deeds of Undertaking and Indemnity	Deeds of undertaking and indemnity provided by (1) the Recoup Vendor and HWL (as a guarantor), and (2) the CK Minority Shareholder and Cheung Kong (as a guarantor), in each case, in favour of the Trustee, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited, in respect of potential fees and penalties in connection with the use of any part of Belvedere Garden Property Phase II as Elderly Homes and any termination costs in connection with the Affected Tenancies.	2.4.10
(7)	Deposits Deed of Indemnity in relation to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement	Deed of indemnity provided by the Belvedere Garden (Remaining Portion) Holding Company in favour of the Belvedere Garden (Remaining Portion) Vendor in respect of any losses and damages suffered by the Belvedere Garden (Remaining Portion) Vendor if the Belvedere Garden (Remaining Portion) Holding Company fails to refund certain rental deposits to the relevant tenants and licensees.	2.4.11
(8)	Borrowings Assignment and Debt Transfer Deed	Deed in relation to the assignment of the Existing Vendor Loans to a company nominated by the Trustee and the transfer of the HWPL Receivable to a company nominated by the Trustee.	2.4.12
<b>Agreements in relation to the acquisition of the Provident Centre Property:</b>			
(9)	Provident Centre Asset Purchase Agreement	Sale and purchase agreement for the acquisition of the Provident Centre Property from the Provident Centre Vendor.	2.4.4

**LETTER TO THE UNITHOLDERS**

No.	Agreement	Summary Description of Agreement	Section with further details of Agreement
(10)	Deposits Deed of Indemnity in relation to the Provident Centre Asset Purchase Agreement	Deed of indemnity provided by the Provident Centre Holding Company in favour of the Provident Centre Vendor in respect of any losses and damages suffered by the Provident Centre Vendor if the Provident Centre Holding Company fails to refund certain rental deposits to the relevant tenants and licensees.	2.4.11

**Deeds of Ratification and Accession**

(11)	Deeds of Ratification and Accession	Deeds entered into between each of the Belvedere Garden Holding Companies, the Provident Centre Holding Company, the Trustee, the Manager and the Property Manager in relation to the operation, maintenance, management and marketing of the New Properties under the Property Management Agreement.	2.4.14
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**2.2 Proposed Acquisition of the Belvedere Garden Property**

**2.2.1 Property Description**

Fortune REIT proposes to acquire Belvedere Garden Property (the “**Belvedere Garden Property**”), which forms part of the development known as “**Belvedere Garden**” (the “**Belvedere Garden Development**”). While Fortune REIT will be acquiring all of the Belvedere Garden Property, the remainder of the Belvedere Garden Development which Fortune REIT will not be acquiring will continue to be owned by other owners. The Belvedere Garden Property comprises of three phases, as shown in the table below:

<b>Belvedere Garden Property</b>	
Phase I . . . . .	All of the commercial areas (shops, clinics and a kindergarten), 15 motorcycle parking spaces and 66 carparks in Belvedere Garden Development Phase I (“ <b>Belvedere Garden Property Phase I</b> ”)
Phase II . . . . .	All of the commercial areas (shops and a kindergarten), except for a shop on the ground floor which has been assigned to The Financial Secretary Incorporated of Hong Kong <sup>(1)</sup> , 52 carparks and common areas <sup>(2)</sup> in Belvedere Garden Development Phase II (“ <b>Belvedere Garden Property Phase II</b> ”)



**LETTER TO THE UNITHOLDERS**

**Belvedere Garden Property**

Phase III . . . . . All of the commercial areas (shops, market, and a kindergarten) and 196 carparks and common areas<sup>(2)</sup> in Belvedere Garden Development Phase III (“**Belvedere Garden Property Phase III**”)

Notes:

- (1) Please see section 2.5 of Appendix 8 to this Circular headed “Summary of Government Grants and Deeds of Mutual Covenant” for further information regarding this shop. The shop accounts for 3.7% of the undivided shares of the commercial area of Belvedere Garden Development Phase II, while Belvedere Garden Property Phase II accounts for the remaining 96.3% of the undivided shares of the commercial area of Belvedere Garden Development Phase II.
- (2) The common areas of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III and the undivided shares allocated thereto are held by Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited as trustee on behalf of all the owners of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III respectively under the relevant deed of mutual covenant or an instrument of a similar nature (which is an agreement between the co-owners to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building’s effective maintenance and management) (“**DMC**”). The common areas generate no income and have no commercial value.

Further details regarding the Belvedere Garden Property are described in section 3.1 headed “**Information on the New Properties — Belvedere Garden Property**” of the Circular.

**2.2.2 Current Holding Structure**

The Belvedere Garden Property is nominally divided into two parts for the purposes of the Acquisition:

- (i) Belvedere Garden (Substantial Portion) Property; and
- (ii) Belvedere Garden (Remaining Portion) Property.

The Belvedere Garden (Substantial Portion) Property includes:

- (a) Belvedere Garden Property Phase IA<sup>21</sup> which comprises all but one of the shops in Belvedere Garden Development Phase I (with such excluded shop forming part of Belvedere Garden Property Phase IB), as well as all clinics, a kindergarten and 15 motorcycle carparks within Belvedere Garden Development Phase I. Bysean Limited<sup>22</sup> is the registered legal owner of, and entitled to all the economic interest in, Belvedere Garden Property Phase IA. In turn, Bysean Limited is indirectly held by the Recoup Vendor. By certain assignments dated 30 November 2009, Caratal Company Limited transferred its undivided shares and interest in Belvedere Garden Property Phase IA to Bysean Limited. Both Caratal Company Limited and Bysean Limited are wholly-owned by Cactus Holdings Limited and held Belvedere Garden Property Phase IA as tenants in common prior to the abovementioned assignments;

<sup>21</sup> Belvedere Garden Property Phase IA and Belvedere Garden Property Phase IB collectively form Belvedere Garden Property Phase I.

<sup>22</sup> Bysean Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

## LETTER TO THE UNITHOLDERS

- (b) Belvedere Garden Property Phase II which comprises all of the commercial areas (shops and a kindergarten), except for a shop on the ground floor which has been assigned to The Financial Secretary Incorporated of Hong Kong<sup>23</sup>, 52 car parks and common areas in Belvedere Garden Development Phase II, and Belvedere Garden Property Phase IIIA<sup>24</sup> which comprises 19 car parks within Belvedere Garden Development Phase III. The registered legal owners of Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA are Wilmington Land Company Limited<sup>25</sup> (as to 17.81%), Ling Fung Development Limited<sup>26</sup> (as to 31.50%) and Quebostar<sup>27</sup> (as to 50.69%) who are tenants in common. Based on a shareholders agreement in relation to Quebostar dated 12 November 1987 and board resolutions of these companies dated 6 November 1989, despite the allocation of such proportions or shares of ownership, all the economic interest (the economic or de facto ownership, enjoyment or actual receipt of the sale proceeds and rental income and other income of whatsoever nature from such properties) in Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA is held by Quebostar; and
- (c) Belvedere Garden Property Phase IIIB which comprises shops, a market, a kindergarten and common areas within Belvedere Garden Development Phase III. The registered legal owners of Belvedere Garden Property Phase IIIB are Wilmington Land Company Limited (as to 17.81%), Ling Fung Development Limited (as to 31.50%) and Quebostar (as to 50.69%) who are tenants in common. Based on the shareholders agreement and board resolutions referred to in subparagraph (b) above, despite the allocation of such proportions or shares of ownership, all the economic interest (as defined in subparagraph (b) above) in Belvedere Garden Property Phase IIIB is held by Fullforce Limited<sup>28</sup> (as to 36.13%) and Bysky Limited<sup>29</sup> (as to 63.87%).

<sup>23</sup> The shop accounts for 3.7% of the undivided shares of the commercial area of Belvedere Garden Development Phase II, while Belvedere Garden Property Phase II accounts for the remaining 96.3% of the undivided shares of the commercial area of Belvedere Garden Development Phase II.

<sup>24</sup> Belvedere Garden Property Phase IIIA, Belvedere Garden Property Phase IIIB and Belvedere Garden Property Phase IIIC collectively form Belvedere Garden Property Phase III.

<sup>25</sup> Wilmington Land Company Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

<sup>26</sup> Ling Fung Development Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

<sup>27</sup> Quebostar is 65% indirectly owned by the Target Company and 35% owned by the Minority Shareholders.

<sup>28</sup> Fullforce Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

<sup>29</sup> Bysky Limited is an indirect wholly-owned subsidiary of the Recoup Vendor.

## LETTER TO THE UNITHOLDERS

The Belvedere Garden (Remaining Portion) Property includes:

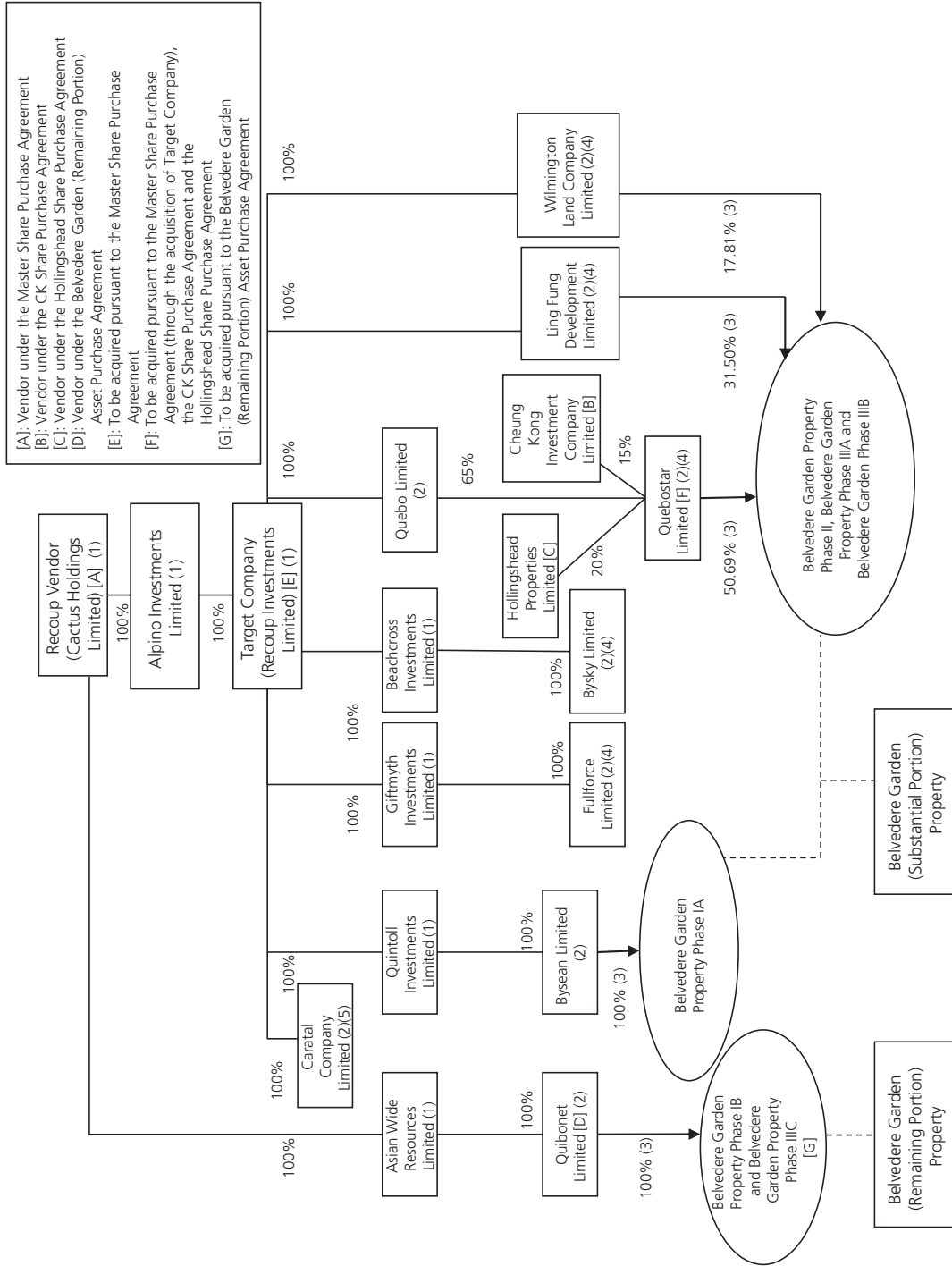
- (i) Belvedere Garden Property Phase IB which comprises the one remaining shop in Belvedere Garden Development Phase I as well as 66 carparks within Belvedere Garden Development Phase I; and
- (ii) Belvedere Garden Property Phase IIIC which comprises 177 carparks within Belvedere Garden Development Phase III.

The Belvedere Garden (Remaining Portion) Vendor is the registered legal owner of the Belvedere Garden (Remaining Portion) Property. In turn, the Belvedere Garden (Remaining Portion) Vendor is indirectly held by the Recoup Vendor.

As a condition precedent to the share purchase agreement entered into between the Recoup Vendor, the Trustee and HWL (as a guarantor) for the purpose of the Trustee acquiring the Target Company Shares (as defined herein) (the "**Master Share Purchase Agreement**"), to ensure that the Trustee is able to acquire the entire Belvedere Garden (Substantial Portion) Property through its acquisition of the entire issued share capital of the Target Company (the "**Target Company Shares**"), the Recoup Vendor will procure the transfer of the entire issued share capital of Caratal Company Limited<sup>30</sup>, Ling Fung Development Limited and Wilmington Land Company Limited to the Target Company (being the "**Reorganisation**"). Below is a chart showing the expected holding structure of the Belvedere Garden Property immediately after the proposed Reorganisation.

<sup>30</sup> In light of the recent assignment by Caratal Company Limited as described in section 2.2.2(a), the Trustee intends to acquire Caratal Company Limited (through its acquisition of the Target Company Shares) to assist and ensure that Fortune REIT will upon Completion hold the entire legal and beneficial interest in Belvedere Garden Property Phase IA.

Expected Holding Structure of the Belvedere Garden Property immediately following the proposed Reorganisation



## LETTER TO THE UNITHOLDERS

Notes:

- (1) Incorporated in the British Virgin Islands.
- (2) Incorporated in Hong Kong.
- (3) These percentages reflect the registered legal ownership percentages in respect of the relevant property.
- (4) Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited are, as tenants in common in the proportions as are shown in the chart above, the registered legal owners of Belvedere Garden Property Phase II, Belvedere Garden Property Phase IIIA and Belvedere Garden Property Phase IIIB. Based on a shareholders agreement in relation to Quebostar dated 12 November 1987 and board resolutions of these companies dated 6 November 1989, despite the allocation of such proportions or shares of ownership, all the economic interest in Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA is held by Quebostar. Based on the same shareholders agreement and board resolutions referred to above, despite the allocation of the proportions or shares of registered legal ownership noted above, all the economic interest in Belvedere Garden Property Phase IIIB is held by and among Fullforce Limited (as to 36.13%) and Bysky Limited (as to 63.87%). For this purpose, "economic interest" means the economic or de facto ownership, enjoyment or actual receipt of the sale proceeds and rental income and other income of whatsoever nature from the relevant properties.
- (5) By certain assignments dated 30 November 2009, Caratal Company Limited transferred its undivided shares and interest in Belvedere Garden Property Phase IA to Bysean Limited, of which Bysean Limited is currently the registered legal owner.

In light of the Economic Benefit Sharing Arrangement and other factors and arrangements relating to the Belvedere Garden Property as described in sections 2.2.2(a) to 2.2.2(c) above, and after conducting its due diligence in respect of such arrangements, the Manager considers it desirable for Fortune REIT to acquire all the members of the Target Company Group to ensure that Fortune REIT will upon Completion hold the entire legal, beneficial and economic interest in the Belvedere Garden Property. In support of such acquisition, Fortune REIT will have the benefit of both customary and specific taxation and other representations, warranties and indemnities from the Recoup Vendor and the CK Minority Shareholder in connection with its acquisition of the Target Company Group (including in relation to the Economic Benefit Sharing Arrangement). Please see sections 2.4.8 to 2.4.11 headed **"The Transaction and Acquisition Facilities — The Purchase Agreements — Representations and Warranties, Several Liability / Deeds of Tax Covenant / Deeds of Undertaking and Indemnity / Deposits Deeds of Indemnity"** for further information.

### 2.2.3 Summary of the Belvedere Garden Property Purchase Agreements

Fortune REIT proposes to acquire:

- (a) the Belvedere Garden (Substantial Portion) Property from:
  - (i) the Recoup Vendor, in respect of the Recoup Vendor's interest in the Belvedere Garden (Substantial Portion) Property, being the Target Company Shares, pursuant to the Master Share Purchase Agreement (as described in section 2.4.1 headed **"The Transaction and Acquisition Facilities — The Purchase Agreements — Master Share Purchase Agreement"** below); and
  - (ii) the Minority Shareholders, in respect of the Minority Shareholders' interest in the Belvedere Garden (Substantial Portion) Property, being the Minority Shareholders Shares, pursuant to the share purchase agreement entered into between each of the Minority Shareholders and

## LETTER TO THE UNITHOLDERS

the Trustee (the "**Minority Interests Share Purchase Agreements**") (as described in section 2.4.2 headed "**The Transaction and Acquisition Facilities — The Purchase Agreements — Minority Interests Share Purchase Agreements**" below),

and after acquiring the Target Company Shares and the Minority Shareholders Shares, and the due completion of the Reorganisation, Fortune REIT will hold the entire legal and economic interest in the Belvedere Garden (Substantial Portion) Property.

- (b) the Belvedere Garden (Remaining Portion) Property from the Belvedere Garden (Remaining Portion) Vendor pursuant to a sale and purchase agreement entered into between the Belvedere Garden (Remaining Portion) Vendor and the Trustee, pursuant to which the Trustee intends to nominate the Belvedere Garden (Remaining Portion) Holding Company to acquire the Belvedere Garden (Remaining Portion) Property (the "**Belvedere Garden (Remaining Portion) Asset Purchase Agreement**") (as described in section 2.4.3 headed "**The Transaction and Acquisition Facilities – The Purchase Agreements – Belvedere Garden (Remaining Portion) Asset Purchase Agreement**" below),

and after acquiring the Belvedere Garden (Substantial Portion) Property and the Belvedere Garden (Remaining Portion) Property in accordance with the above, Fortune REIT will hold the entire legal and economic interest in the Belvedere Garden Property.

### 2.3 Proposed Acquisition of the Provident Centre Property

#### 2.3.1 Property Description

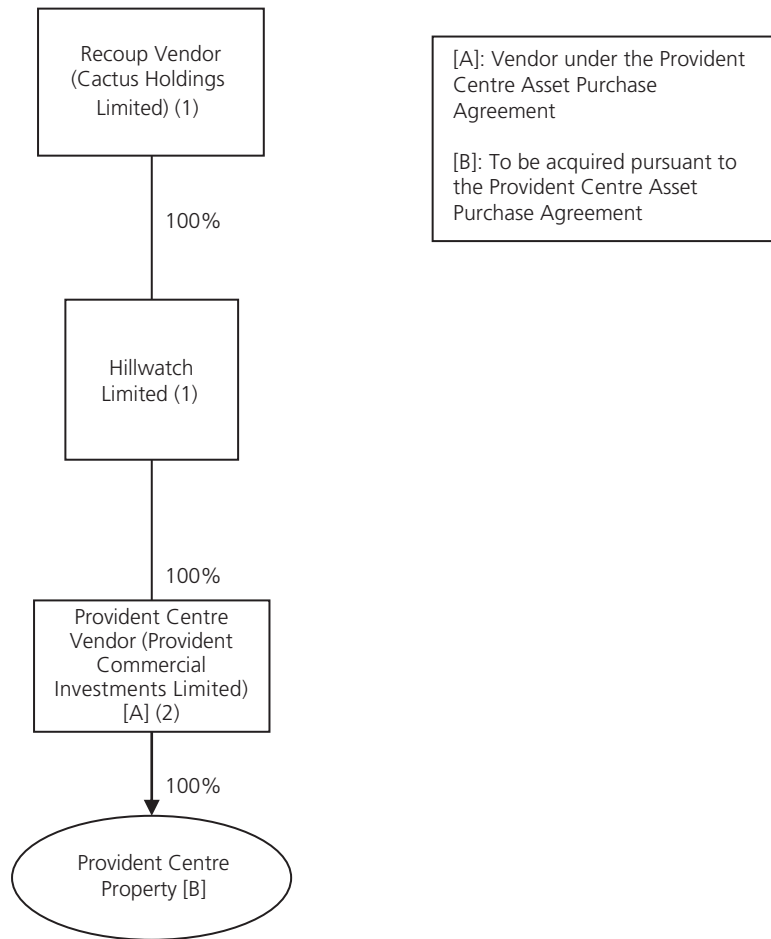
Fortune REIT proposes to acquire the Provident Centre Property, which forms part of the development known as "**Provident Centre**" (being the "**Provident Centre Development**"). While Fortune REIT will be acquiring all of the Provident Centre Property, the remainder of the Provident Centre Development which Fortune REIT will not be acquiring will continue to be owned by other owners.

The Provident Centre Development comprises a shopping centre on the basement, ground floor and upper ground floor, residential units, a sub-basement and two swimming pools. The Provident Centre Property comprises the shopping centre at the basement, ground floor, upper ground floor (but excluding carparks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the Provident Centre Development. The Provident Centre Property represents the entire commercial area and sub-basement of the Provident Centre Development.

### 2.3.2 Current Holding Structure

The Provident Centre Vendor is the registered legal owner of the Provident Centre Property. In turn, the Provident Centre Vendor is indirectly held by the Recoup Vendor. Below is a chart showing the current holding structure of the Provident Centre Property.

#### Current Holding Structure of the Provident Centre Property



**Notes:**

- (1) Incorporated in the British Virgin Islands.
- (2) Incorporated in Hong Kong.

### 2.3.3 Summary of the Provident Centre Property Purchase Agreement

Fortune REIT proposes to acquire the Provident Centre Property from the Provident Centre Vendor pursuant to a sale and purchase agreement entered into between the Provident Centre Vendor and the Trustee pursuant to which the Trustee intends to nominate the Provident Centre Holding Company to acquire the Provident Centre Property (the **"Provident Centre Asset Purchase Agreement"**) (as described in section 2.4.4 headed **"The Transaction and Acquisition Facilities — The Purchase Agreements — Provident Centre Asset Purchase Agreement"** below).

## 2.4 The Purchase Agreements

On 28 December 2011, the Trustee, and the Vendors entered into the following Purchase Agreements in relation to the acquisition of the Belvedere Garden Property and the Provident Centre Property:

- (a) the Share Purchase Agreements in respect of the Belvedere Garden (Substantial Portion) Property being:
  - (i) the Master Share Purchase Agreement, pursuant to which the Recoup Vendor has agreed to procure the sale, transfer and assignment to the Trustee (or its nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income), as well as the Existing Vendor Loans; and
  - (ii) the Minority Interests Share Purchase Agreements, pursuant to which the Minority Shareholders (being the Hollingshead Minority Shareholder and the CK Minority Shareholder) have agreed to sell, transfer and assign to the Trustee (or its nominee) the Minority Shareholders Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income);
- (b) the Asset Purchase Agreements in respect of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property being:
  - (i) the Belvedere Garden (Remaining Portion) Asset Purchase Agreement, pursuant to which the Belvedere Garden (Remaining Portion) Vendor has agreed to sell the Belvedere Garden (Remaining Portion) Property to the Trustee; and
  - (ii) the Provident Centre Asset Purchase Agreement, pursuant to which the Provident Centre Vendor has agreed to sell the Provident Centre Property to the Trustee.

The transactions contemplated under the Purchase Agreements will take place upon Completion, after which Fortune REIT will hold all the legal and economic interest in the Belvedere Garden Property and the Provident Centre Property.

Each of the Vendors, except the Hollingshead Minority Shareholder, is (i) a Connected Person; (ii) an Interested Person; and (iii) an Interested Party, and accordingly the Acquisition and consummation of the transactions contemplated under the Purchase Agreements (except the Hollingshead Share Purchase Agreement) constitute (a) connected party transactions of Fortune REIT under paragraph 8.5 of the REIT Code; (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Singapore Listing Manual; and (c) Interested Party Transactions under paragraph 5 of the Singapore Property Funds Appendix. For further information, please refer to section 8.1 headed "**Implications under the REIT Code and the Trust Deed – Transaction**" of this Circular.



#### 2.4.1 Master Share Purchase Agreement

Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure the sale, transfer and assignment to the Trustee (or its nominee) on the Completion Date (as defined herein) of the Target Company Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income), as well as the Existing Vendor Loans<sup>31</sup>.

The purchase consideration under the Master Share Purchase Agreement is HK\$1,042,146,616, subject to a customary adjustment for:

- (a) the net current assets (such as all receivables, refundable utility and other deposits placed with relevant authorities or suppliers, all cash and deposits at bank and all prepaid operating expenses); and/or
- (b) the net current liabilities (such as all security deposits, all rental/licence fees received in advance in relation to the Belvedere Garden (Substantial Portion) Property, all payments due to creditors and accruals of property and other relevant expenses and all provision for taxation),

of the Target Company and its subsidiaries (the "**Target Company Group**") as at Completion but excluding (i) the Existing Vendor Loans and (ii) the aggregate amount standing to the credit of the Target Company current account immediately prior to Completion as being an amount held on behalf of the Target Company by Hutchison Whampoa Properties Limited, a company incorporated in Hong Kong ("**HWPL**"), being HK\$28,240,757 as at 30 November 2011, being the latest practicable date for ascertaining such amount (the "**HWPL Receivable**"), as well as (iii) any deferred tax liabilities or deferred tax assets of the Target Company Group. The Master Share Purchase Agreement provides that prior to Completion, the Recoup Vendor must procure that any amounts owed to or from any member of the Target Company Group to persons outside the Target Company Group are consolidated, repaid or transferred, as applicable, so that the only outstanding loans owed to or from any member of the Target Company Group to persons outside the Target Company Group as at Completion are the Existing Vendor Loans and the HWPL Receivable. Accordingly, upon Completion, all amounts due from (to) fellow subsidiaries and intermediate holding companies will become zero except for the Existing Vendor Loans and the HWPL Receivable.

The adjustment for the net current assets/liabilities of the Target Company Group will: (a) exclude 35% of the net current assets/liabilities of Quebostar; and (b) be set out in a pro forma completion balance sheet to be provided by the Recoup Vendor to the Trustee shortly prior to Completion. Such adjustment will be audited within 90 days after Completion with a view to making any final post-completion adjustments that may be applicable either in favour of the Trustee or the Recoup Vendor.

The above form of adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Trustee on other transactions in the past. The purchase consideration payable under the Master

<sup>31</sup> "**Existing Vendor Loans**" means the unsecured and interest bearing loans advanced by, HWP Finance (Hong Kong) No. 2 Limited to the Belvedere Garden (Substantial Portion) Holding Companies and the unsecured, interest free and repayable on demand loans advanced by HWP Finance Limited to the Target Company, the aggregated total of which being HK\$421,202,713 as at 30 November 2011, being the latest practicable date for ascertaining such amount.

## LETTER TO THE UNITHOLDERS

Share Purchase Agreement as adjusted in the manner described above shall on Completion be applied: (1) firstly, as payment on a dollar-for-dollar basis for the assignment to the Trustee (or a nominee of the Trustee) of the Existing Vendor Loans, where such payment is reduced by the amount of the HWPL Receivable to be assumed by the Trustee (or a nominee of the Trustee) as a liability to be repaid to the Target Company and (2) thereafter, as payment for the transfer of the Target Company Shares.

The Manager does not contemplate any adjustments for non-current assets and liabilities, as there are no material non-current assets/liabilities (other than the New Properties) and the Master Share Purchase Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of the Target Company Group during the period between signing of the Purchase Agreements and Completion. For example, the Master Share Purchase Agreement contains covenants that, among others: (a) require members of the Target Company Group not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict members of the Target Company Group from entering into any agreement or incurring any commitment involving material expenditure, without the prior written consent of the Trustee; and (c) restrict members of the Target Company Group from incurring additional borrowing and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee. These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of the Target Company Group arising from acts or omissions of the Recoup Vendor.

Pursuant to the Master Share Purchase Agreement and the Borrowings Assignment and Debt Transfer Deed, part of the purchase consideration (such part being equal to the aggregate amount of the Existing Vendor Loans less the amount of the HWPL Receivable) will be paid upon Completion by the Trustee to the Existing Vendor Loan Lenders who will then assign these loans on a dollar-for-dollar basis to the Trustee or any nominee of the Trustee upon Completion while the Trustee (or a nominee of the Trustee) will assume the liability to repay the HWPL Receivable to the Target Company. The remaining amount will be paid upon Completion by the Trustee to the Recoup Vendor for the Target Company Shares.

Further details regarding the Master Share Purchase Agreement are summarised in sections 2.4.5 to 2.4.15 below.

### **2.4.2 Minority Interests Share Purchase Agreements**

Pursuant to the Minority Interests Share Purchase Agreements, each of the Minority Shareholders has agreed to sell, transfer and assign to the Trustee (or its nominee) on the Completion Date its respective Minority Shareholders Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income).

The aggregate purchase consideration under the Minority Interests Share Purchase Agreements is HK\$143,397,384, subject to a customary adjustment for the net current assets/liabilities of Quebostar as at Completion and excluding any deferred tax liabilities or deferred tax assets of Quebostar, and is payable upon Completion.

## LETTER TO THE UNITHOLDERS

The adjustment for the net current assets/liabilities of Quebostar will (a) take into consideration the fact that the Hollingshead Minority Shareholder owns only 20% of the issued share capital of Quebostar and the CK Minority Shareholder owns only 15% of the issued share capital of Quebostar; and (b) be set out in a pro forma completion balance sheet to be provided by the CK Minority Shareholder to the Trustee shortly prior to Completion. Such adjustment will be audited within 90 days after Completion with a view to making any final post-completion adjustments that may be applicable either in favour of the Trustee or the Minority Shareholders.

The above form of adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Trustee on other transactions in the past.

The Manager does not contemplate any adjustments for non-current assets and liabilities, as there are no material non-current assets/liabilities (other than the New Properties) and the CK Share Purchase Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of Quebostar during the period between signing of the Purchase Agreements and Completion. For example, the CK Share Purchase Agreement contains covenants that, among others: (a) require Quebostar not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict Quebostar from entering into any agreement or incurring any commitment involving material expenditure, without the prior written consent of the Trustee; and (c) restrict Quebostar from incurring additional borrowing and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee. These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of Quebostar arising from acts or omissions of the CK Minority Shareholder.

Further details regarding the Minority Interests Share Purchase Agreements are summarised in sections 2.4.5 to 2.4.15 below.

### **2.4.3 Belvedere Garden (Remaining Portion) Asset Purchase Agreement**

Pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement, the Belvedere Garden (Remaining Portion) Vendor has agreed to sell the Belvedere Garden (Remaining Portion) Property to the Trustee for a purchase consideration of HK\$64,456,000, payable upon Completion.

As from but exclusive of the Completion Date, the rents and profits attributable to Fortune REIT in respect of the Belvedere Garden (Remaining Portion) Property will be received and all outgoings attributable to Fortune REIT in respect of that property will be discharged by or on behalf of Fortune REIT.

## LETTER TO THE UNITHOLDERS

Further details regarding the Belvedere Garden (Remaining Portion) Asset Purchase Agreement are summarised in sections 2.4.5 to 2.4.15 below.

### 2.4.4 Provident Centre Asset Purchase Agreement

Pursuant to the Provident Centre Asset Purchase Agreement, the Provident Centre Vendor has agreed to sell the Provident Centre Property to the Trustee for a purchase consideration of HK\$650.0 million, payable upon Completion.

As from but exclusive of the Completion Date, the rents and profits attributable to Fortune REIT in respect of the Provident Centre Property will be received and all outgoings attributable to Fortune REIT in respect of that property will be discharged by or on behalf of Fortune REIT.

Further details regarding the Provident Centre Asset Purchase Agreement are summarised in sections 2.4.5 to 2.4.15 below.

### 2.4.5 Total Consideration

The aggregate purchase consideration (being the “**Total Consideration**”) for the Belvedere Garden Property and the Provident Centre Property is HK\$1,900.0 million (subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar referred to in sections 2.4.1 and 2.4.2 above), which may be broken down as follows:

- (a) HK\$1,250.0 million in respect of the Belvedere Garden Property, comprising:
  - (i) HK\$1,042,146,616 payable under the Master Share Purchase Agreement;
  - (ii) HK\$81,941,362 payable under the Hollingshead Share Purchase Agreement;
  - (iii) HK\$61,456,022 payable under the CK Share Purchase Agreement; and
  - (iv) HK\$64,456,000 payable under the Belvedere Garden (Remaining Portion) Asset Purchase Agreement.
- (b) HK\$650.0 million in respect of the Provident Centre Property, payable under the Provident Centre Asset Purchase Agreement.

The final purchase consideration for the New Properties shall be announced by the Manager as soon as practicable following the determination of such adjustments, together with the quantum of the adjustment amounts. The Total Consideration is payable on Completion.

## LETTER TO THE UNITHOLDERS

The purchase consideration for each of the New Properties has been arrived at on a willing buyer and a willing seller in an arm's-length transaction basis after taking into account the valuations of the New Properties by the Independent Property Valuers. Such valuations for the New Properties as at 30 September 2011 are summarised in the table below.

<u>The New Properties</u>	Appraised Value		<u>Purchase Consideration</u>
	<u>by Knight Frank (appointed by the Trustee)</u> (HK\$ million)	<u>by Savills (appointed by the Manager)</u> (HK\$ million)	
Belvedere Garden Property .....	1,300	1,340	1,250 <sup>(1)</sup>
Provident Centre Property .....	680	680	650
<b>Total</b> .....	<b>1,980</b>	<b>2,020</b>	<b>1,900<sup>(1)</sup></b>

Note:

- (1) Before adjustment for the net current assets/liabilities of the Target Company Group and Quebostar, as applicable, as at Completion.

The Total Consideration is to be financed by (a) the term loan facility of HK\$1,100 million under the New Facility; (b) a HK\$970 million revolving credit facility (tranche B facility) made available to the Existing Facility Borrowers by a syndicate of banks for whom Standard Chartered Bank acts as facility and security agent under the Existing Facility; and (c) internally generated funds. The term loan facility under the New Facility will be drawn down first, with the revolving credit facility of the Existing Facility and internally generated funds being used to finance the remainder of the Total Consideration.

### 2.4.6 Completion

Completion shall take place on the date following 14 days after the conditions precedent to Completion ("**Conditions**") under the Purchase Agreements, as set out below have been met (or such other date as the parties may agree but not later than the date that falls three months after the date of the Purchase Agreements, or such other date as the Recoup Vendor, the Minority Shareholders, the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor (as the case may be) and the Trustee may agree in writing (the "**Long Stop Date**")) (the "**Completion Date**"). As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred. Such announcement will, among other things, contain further details regarding the Main Nominee, the Belvedere Garden (Remaining Portion) Holding Company and the Provident Centre Holding Company.

Completion of each Purchase Agreement is conditional upon completion of each of the other Purchase Agreements.

## LETTER TO THE UNITHOLDERS

### 2.4.7 Conditions Precedent

Completion is subject to and conditional upon satisfaction of the following Conditions:

- (1) no event or circumstance arising that prohibits or materially restricts the sale and purchase of the Target Company Shares and/or the New Properties pursuant to the REIT Code, the Securities and Futures Act, Chapter 289 of Singapore and/or the Code on Collective Investment Schemes (including the Singapore Property Funds Appendix) issued by the MAS;
- (2) no statute, regulation or decision which would prohibit, restrict or materially delay or adversely affect the sale and purchase of the Target Company Shares or the operation of the Target Company's subsidiaries having been proposed, enacted or taken by any governmental or official authority;
- (3) no statute, regulation or decision which would prohibit, restrict or materially delay or adversely affect the sale and purchase of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property having been proposed, enacted or taken by any governmental or official authority;
- (4) the passing of the EGM Resolution;
- (5) the licences, authorisations, orders, grants, confirmations, consents, permissions, registrations and other approvals necessary or desirable for or in respect of the Acquisition having been obtained from third parties (including governmental or official authorities, courts or other regulatory bodies) on terms reasonably satisfactory to the Trustee and remaining in full force and effect;
- (6) the obtaining of the New Facility (as defined herein) and the New Facility being in place at Completion;
- (7) completion of each Purchase Agreement is conditional upon completion of each of the other Purchase Agreements; and
- (8) the: (a) due completion by the Recoup Vendor of the Reorganisation to the satisfaction of the Trustee; and (b) such consolidation, repayment or transfer, as applicable, of any amounts owed to or from any member of the Target Company Group to persons outside the Target Company Group as are required to ensure that the only outstanding loans owed to or from any member of the Target Company Group to persons outside the Target Company Group immediately prior to Completion are the Existing Vendor Loans and the HWPL Receivable, respectively.

The Trustee may waive all or any of the Conditions at any time by notice in writing to the Recoup Vendor, the Minority Shareholders, the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor, as appropriate (other than the Conditions mentioned in paragraphs (1) and (4) above), although the waiver of the Conditions mentioned in paragraphs (6) and (7) will require the written consent of both the Trustee and the relevant Vendor. In the event that any of the Conditions shall not have been fulfilled (or waived) prior to the Long Stop Date, then neither the Trustee nor the relevant Vendor shall be bound to proceed with the Acquisition and all Purchase Agreements shall terminate.

## LETTER TO THE UNITHOLDERS

Each of the Master Share Purchase Agreement, the Asset Purchase Agreements and the CK Share Purchase Agreement also provides the Trustee with the right to terminate the Purchase Agreement by notice in writing to the relevant Vendor, if prior to Completion the government or other competent authority shall acquire or give notice of acquisition or resumption or intended acquisition or resumption of whole or a substantial part of the underlying property.

Further, each of the Master Share Purchase Agreement and the CK Share Purchase Agreement provides the Trustee with the right to terminate the relevant Share Purchase Agreement by notice in writing to the Recoup Vendor and/or the CK Minority Shareholder (as the case may be), if prior to Completion it shall be found that any of the warranties under the relevant Share Purchase Agreement was, when given, or will be or would be, at Completion not complied with or otherwise untrue or misleading in any material respect, and which will have a material adverse effect on the financial condition, earnings, business or assets of the Target Company Group and/or the Belvedere Garden (Substantial Portion) Property, taken as a whole, in the case of the Master Share Purchase Agreement, and, of Quebostar and/or such part of the Belvedere Garden (Substantial Portion) Property as is owned by Quebostar, in the case of the CK Share Purchase Agreement.

In the event of such termination, the Master Share Purchase Agreement and/or any or both of the Asset Purchase Agreements (as the case may be) will terminate (save for certain provisions such as confidentiality which shall remain binding as between the parties) and no party shall have any claims against the other.

### **2.4.8 Representations and Warranties, Several Liability**

The Share Purchase Agreements contain certain representations and warranties made by the Recoup Vendor or the Minority Shareholders (as the case may be), although the Hollingshead Share Purchase Agreement contains more limited representations and warranties (limited as to title to, and freedom from, encumbrances of the Hollingshead Minority Shareholder Shares) in light of its limited involvement in the day to day operations of Quebostar.

The Recoup Vendor (being the indirect majority shareholder of Quebostar) is de facto liable in relation to any potential warranty or indemnity claims under the Master Share Purchase Agreement, both in respect of its own 65% shareholding in Quebostar and the 20% shareholding of the Hollingshead Minority Shareholder. Further, the Master Share Purchase Agreement contains a full set of comprehensive warranties in respect of each member of the Target Company Group including Quebostar.

Among others, the Share Purchase Agreements contain representations and warranties in respect of the Target Company, Quebostar and Belvedere Garden (Substantial Portion) Property, as applicable, including that the Target Company Shares, the Minority Shareholders Shares and the Belvedere Garden (Substantial Portion) Property respectively shall at Completion be free and clear of all encumbrances.

The Master Share Purchase Agreement and the CK Share Purchase Agreement set out limitations on the liability of the Recoup Vendor or the CK Minority Shareholders (as the case may be) in respect of any breach of warranties. The maximum aggregate liability of the Recoup Vendor or the CK Minority Shareholder (as the case may be) in respect of all claims under the relevant Share Purchase Agreement shall not exceed the aggregate of the consideration payable by the Trustee under the relevant Share Purchase Agreement. The Trustee shall not be entitled to recover from the Recoup



## LETTER TO THE UNITHOLDERS

Vendor or the CK Minority Shareholder (as the case may be) under the relevant Share Purchase Agreement more than once in respect of the same damage suffered. The Master Share Purchase Agreement and the CK Share Purchase Agreement also provide for a limitation period of 21 months from the Completion Date for all claims (other than claims relating to tax-related warranties, in which case the limitation period is seven years). Such limitation period is the result of arm's length negotiations between the relevant parties and is consistent with other transactions that Fortune REIT has entered in the past.

The Belvedere Garden (Remaining Portion) Property and the Provident Centre Property are sold on an "as-is" basis and subject to the existing tenancies and licences.

### 2.4.9 Deeds of Tax Covenant

Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, each of the relevant Vendors and HWL or Cheung Kong (both as guarantors) (as the case may be) will enter into a deed of tax covenant in favour of the Trustee (the "**Deeds of Tax Covenant**"). Pursuant to each Deed of Tax Covenant, the relevant Vendor will covenant to indemnify the Trustee in respect of (among others):

- (1) any liability for taxation resulting from any payment, utilisation of loss or relief, transaction or occurrence of whatever nature occurring on or before Completion or in respect of any gross receipts, economic interest, income, profits or gains earned, accrued or received by a member of the Target Company Group, in the case of the Deed of Tax Covenant with the Recoup Vendor, and by Quebostar, in the case of the Deed of Tax Covenant with the CK Minority Shareholder, on or before Completion;
- (2) potential liability for taxation in relation to accounting re-classification from trading stock to investment property, of the Belvedere Garden (Substantial Portion) Property, in the case of the Deed of Tax Covenant with the Recoup Vendor, and of such part of the Belvedere Garden (Substantial Portion) Property as is owned by Quebostar, in the case of the Deed of Tax Covenant with the CK Minority Shareholder, on or after Completion;
- (3) potential liability for taxation that may not arise but for the Economic Benefit Sharing Arrangement or additional liability for taxation arising as a result of any taxation authority disregarding (wholly or partly) the Economic Benefit Sharing Arrangement, provided that in each case the Economic Benefit Sharing Arrangement is not altered and provided also that the CK Minority Shareholder's liability shall be limited to 15% of the liability attributable to Quebostar only; and
- (4) all reasonable costs and expenses properly incurred (including legal and professional fees) and payable by any member of the Target Company Group or the Trustee in connection with a successful claim under the Deeds of Tax Covenant provided that the CK Minority Shareholder's liability shall be limited to 15% of the reasonable costs and expenses properly incurred (including legal and professional fees) by Quebostar only.



## LETTER TO THE UNITHOLDERS

In addition, under the Deed of Tax Covenant related to the Master Share Purchase Agreement, the Recoup Vendor has represented to the Trustee that up to and as at Completion Date, the Economic Benefit Sharing Arrangement has not (among others) been challenged by any taxation authority.

The limitation period for claims under each Deed of Tax Covenant is seven years from Completion Date.

Under the Deed of Tax Covenant to be entered into with the Recoup Vendor, in respect of liability for taxation to which Quebostar is subject (the "**Quebostar Liability for Taxation**") shall be limited to the sum of: (1) 20% of the indemnified amount payable by the Recoup Vendor in relation to the Quebostar Liability for Taxation subject to the Hollingshead Maximum Cap; and (2) 65% of the indemnified amount payable by the Recoup Vendor in relation to the Quebostar Liability for Taxation which shall not be subject to a maximum cap.

Under the Deed of Tax Covenant to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for 15% of the indemnified amount payable in relation to the Quebostar Liability for Taxation under that Deed of Tax Covenant. For the avoidance of doubt, the Deed of Tax Covenant to be entered into with the Recoup Vendor shall be with respect to the Target Company Group and the Deed of Tax Covenant to be entered into with the CK Minority Shareholder shall be with respect to Quebostar only.

For further information regarding the risks associated with the Economic Benefit Sharing Arrangement, please see section 5.5 headed "**Risk Factors — Fortune REIT may have to raise further equity and/or debt to fund additional tax required in connection with the Economic Benefit Sharing Arrangement**" of this Circular.

### 2.4.10 Deeds of Undertaking and Indemnity

Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, the relevant Vendor and HWL or Cheung Kong (both as guarantors) (as the case may be) will, at Completion, each enter into a deed of undertaking and indemnity in favour of the Trustee, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited (the "**Deeds of Undertaking and Indemnity**").

Pursuant to each Deed of Undertaking and Indemnity, the relevant Vendor shall undertake to indemnify and keep Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited fully indemnified against:

- (1) all consent fees, waiver fees, administrative fees, tolerance fees, fines, penalties whatsoever imposed or which may be imposed by the Director of Lands / District Lands Officer TW/KT and/or other competent Government authority for the use of any part of Belvedere Garden Property Phase II as Elderly Homes at any time during the Indemnity Period and interest thereon; and
- (2) all reasonable costs for the termination of the Affected Tenancy and expenses reasonably incurred by the Registered Owners for the eviction of the relevant tenant under the Affected Tenancy and any legal proceedings or settlements in connection therewith and interests thereon,

(together the "**Indemnified Amount**").

## LETTER TO THE UNITHOLDERS

The Affected Tenancies comprise the tenancies of (i) Shops 101 to 108 on the First Floor and Portion on the Ground Floor of Belvedere Garden Property Phase II and of (ii) Shops 123-124 and 126-151 on the First Floor of Belvedere Garden Property Phase II, the tenants of which are using the tenanted premises or parts thereof for purposes of Elderly Homes (each an “**Affected Tenancy**”). For the month ended 30 September 2011, the gross rental income of the Affected Tenancies represented 6.5% of the gross rental income of the Belvedere Garden Property, and the gross rentable area of the Affected Tenancies is about 41,737 sq. ft., representing 15.1% of the gross rentable area of the Belvedere Garden Property.

Under the Deed of Undertaking and Indemnity to be entered into with the Recoup Vendor, the Recoup Vendor shall be liable for 85% of the Indemnified Amount, however 20% of such Indemnified Amount shall (taken together with the indemnified amounts payable under the Hollingshead Tax Indemnity Portion) be limited to a maximum amount equal to the Hollingshead Consideration. In the event that such aggregate maximum cap is reached, the Recoup Vendor’s ongoing liability shall be limited solely to 65% of such Indemnified Amount. Under the Deed of Undertaking and Indemnity to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for 15% of the Indemnified Amount under that deed.

Save and except as described above regarding the limitation as to time and amount, the indemnification obligations of the Recoup Vendor and the CK Minority Shareholder under the Deeds of Undertaking and Indemnity are not limited as to time or amount.

For further information regarding the risks associated with the Affected Tenancies, please see section 5.2 headed “**Risk Factors — Risks relating to the Affected Tenancies**” of this Circular.

### **2.4.11 Deposits Deeds of Indemnity**

The Belvedere Garden (Remaining Portion) Asset Purchase Agreement sets out that as a condition for the transfer of rental deposits (held by the Belvedere Garden (Remaining Portion) Vendor under the tenancy and licence agreements of the Belvedere Garden (Remaining Portion) Property) to the Belvedere Garden (Remaining Portion) Holding Company on completion of the sale and purchase of the Belvedere Garden (Remaining Portion) Property, the Belvedere Garden (Remaining Portion) Holding Company is required to execute a deed of indemnity in favour of the Belvedere Garden (Remaining Portion) Vendor in respect of any losses and damages suffered by the Belvedere Garden (Remaining Portion) Vendor if the Belvedere Garden (Remaining Portion) Holding Company fails to refund such deposits to the relevant tenants and licensees in accordance with such tenancy and licence agreements.

Similarly, the Provident Centre Asset Purchase Agreement sets out that as a condition for the transfer of rental deposits (held by the Provident Centre Vendor under the tenancy and licence agreements of the Provident Centre Property) to the Provident Centre Holding Company on completion of the sale and purchase of the Provident Centre Property, the Provident Centre Holding Company is required to execute a deed of indemnity in favour of the Provident Centre Vendor in respect of any losses and damages suffered by the Provident Centre Vendor if the Provident Centre Holding Company fails to refund such deposits to the relevant tenants and licensees in accordance with such tenancy and licence agreements.

## LETTER TO THE UNITHOLDERS

The amount of rental deposits held by the Belvedere Garden (Remaining Portion) Vendor under the tenancy and licence agreements of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Vendor under the tenancy and licence agreements of the Provident Centre Property would be determined as at Completion Date. For illustrative purposes however, the amount of rental deposits in relation to the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property as at 30 November 2011 were HK\$221,793 and HK\$7,095,754 respectively.

### **2.4.12 Borrowings Assignment and Debt Transfer Deed**

The Recoup Vendor is an indirect holding company of the Existing Vendor Loan Borrowers. Each of the Existing Vendor Loan Borrowers is indebted to each of the relevant Existing Vendor Loan Lenders. Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure each of the Existing Vendor Loan Lenders to assign its respective portion of the Existing Vendor Loans to the Trustee (or a nominee of the Trustee) on a dollar for dollar basis upon Completion.

HWPL is indebted to the Target Company in relation to the HWPL Receivable. Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure that HWPL will transfer and the Trustee has agreed to assume (directly or through a nominee) the HWPL Receivable in consideration for a corresponding reduction in the consideration payable by the Trustee to the Existing Vendor Loan Lenders for the assignment of the Existing Vendor Loans. Accordingly, at Completion, (1) each of the Existing Vendor Loan Lenders will assign their respective rights, title, interest and benefit in the Existing Vendor Loans to the Trustee or company nominated by the Trustee; and (2) HWPL will transfer the HWPL Receivable to a company nominated by the Trustee, in accordance with the Borrowings Assignment and Debt Transfer Deed.

The aggregate purchase consideration payable under the Master Share Purchase Agreement (subject to the adjustments referred to sections 2.4.1 and 2.4.2 above), includes the consideration for the assignment of the Existing Vendor Loans less the amount of the HWPL Receivable referred to in section 2.4.1 above.

### **2.4.13 Guarantee of the Recoup Vendor's Obligations and Guarantee of the CK Minority Shareholder's Obligations**

Hutchison Whampoa Limited, a company incorporated in Hong Kong ("HWL"), has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Recoup Vendor under the Master Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity and the due and punctual performance and observance by the Recoup Vendor of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Master Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity.

Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong ("Cheung Kong") has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the CK Minority Shareholder under the CK Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity and the due and punctual performance and observance by the CK Minority Shareholder of all its obligations, commitments,

## LETTER TO THE UNITHOLDERS

undertakings, warranties and indemnities under or pursuant to the CK Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity.

The Hollingshead Minority Shareholder is giving limited warranties as to title to and freedom from encumbrances of the Hollingshead Minority Shareholder Shares due to the Hollingshead Minority Shareholder not being involved in the operations of Quebostar. Given the limited nature of the warranties, it has been commercially agreed that no guarantor is required under the Hollingshead Share Purchase Agreement.

### 2.4.14 Deeds of Ratification and Accession

Upon Completion, the operation, maintenance, management and marketing of the New Properties will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement entered into by the Trustee, the Manager and the Property Manager, as provided by the Deeds of Ratification and Accession as entered into between each of the Belvedere Garden (Substantial Portion) Holding Companies, the Belvedere Garden (Remaining Portion) Holding Company (collectively, the "**Belvedere Garden Holding Companies**"), the Provident Centre Holding Company, the Trustee, the Manager and the Property Manager.

The fees payable to the Property Manager under the Property Management Agreement (which has not been changed since the listing of Fortune REIT on the SGX-ST in August 2003) are as follows:

- (1) property management and lease management fee of 3.0% per annum of Gross Property Revenue<sup>32</sup>; and
- (2) commission of: (a) one month's base rent for securing a tenancy of three years or more; (b) one-half month's base rent for securing a tenancy of less than three years; (c) one-half month's base rent for securing a renewal of tenancy irrespective of duration of the lease term; and (d) 10.0% of the total license fee for securing a license for a duration of less than 12 months (excluding licences for use as a show flat granted or to be granted to a member of the CKH Group).

### 2.4.15 Arm's Length Terms

The Purchase Agreements were entered into by the parties thereto on normal commercial terms following arm's length negotiations.

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the New Properties carried out in accordance with the relevant provisions of the REIT Code and the Manager's compliance manual, that Fortune REIT will hold good marketable legal and economic title to the New Properties immediately upon Completion.

<sup>32</sup> "**Gross Property Revenue**" means Gross Revenue less Charge-Out Collections (which comprises air conditioning charges, management fees, promotional charges, government rates, government rents, utilities charges, cleaning and other charges payable by the tenants and licensees of the Properties) and car park revenues.

## 2.5 Reasons for, and Benefits of, the Transaction

The Manager believes that the Acquisition will bring the following key benefits to the Unitholders:

### 2.5.1 Yield Accretion

The Net Property Income<sup>33</sup> yield of the New Properties for the year ended 31 December 2010 was 4.2%<sup>34</sup>. This is higher than the Net Property Income yield of 3.9%<sup>35</sup> for the Existing Properties for the year ended 31 December 2010.

Based on the pro-forma financials, assuming that the New Properties had been acquired by Fortune REIT since 1 January 2011, the pro-forma enlarged DPU of 13.66<sup>36</sup> HK cents represents a 6.7% increase from Fortune REIT's DPU of 12.80<sup>37</sup> HK cents for the six months ended 30 June 2011.

### 2.5.2 Acquisition of Quality Assets with High Occupancy Rates and Strategic Location

The New Properties will provide Fortune REIT with additional stable and growing rental cash flow, which will be beneficial to the Unitholders.

The Acquisition supports the Manager's acquisition growth strategy of owning commercial properties with high occupancy and long term growth potential. As at 30 September 2011, the weighted average occupancy rate of the New Properties was 96.2%<sup>38</sup>. This compares favourably with the average occupancy rate of 92.1%<sup>39</sup> for private commercial properties<sup>40</sup> in Hong Kong in 2010. The high occupancy reflects the strong demand for retail space in the areas in which the New Properties are located. As at 30 September 2011, the Belvedere Garden Property and the Provident Centre Property had 100 tenants and 47 tenants respectively. The high occupancy and diversified tenant base will provide Fortune REIT with stable and growing income.

According to the Market Consultant's Report, the New Properties are located in established large residential population areas (namely North Point and Tsuen Wan). Both New Properties benefit from convenient transport infrastructure, with easy access to various modes of transport, and are well connected to the urban areas and other parts of Hong Kong.

Further, the Market Consultant's Report mentions that the Belvedere Garden Property is currently enjoying a captive primary catchment with a large residential population of approximately 30,000 people. As the only retail mall of its scale within the area, its current tenant mix with a primary focus towards necessity shopping is well supported.

<sup>33</sup> "Net Property Income" means Gross Revenue less Property Operating Expenses.

<sup>34</sup> Computed based on the Net Property Income of the New Properties for the year ended 31 December 2010 over the Total Consideration.

<sup>35</sup> Computed based on the actual Net Property Income of the Existing Properties for the year ended 31 December 2010 over Fortune REIT's portfolio valuation of HK\$15,688 million as at 30 June 2011.

<sup>36</sup> Computed based on the distributable income of the Enlarged Group for the period ended 30 June 2011 over the number of Units issued and issuable by the Enlarged Group as at 30 June 2011.

<sup>37</sup> Actual DPU of Fortune REIT for the period ended 30 June 2011.

<sup>38</sup> Computed based on the respective occupancy rate of the Belvedere Garden Property and the Provident Centre Property weighted over the total Gross Rentable Area of the New Properties.

<sup>39</sup> Source: Market Consultant's Report.

<sup>40</sup> Private commercial properties include retail premises and other premises designed or adopted for commercial use, with the exception of purpose-built offices. Carpark space is excluded.

The Market Consultant's Report also notes that the Provident Centre Property is located in a traditional residential area with a primary catchment of approximately 26,000 people. It has a large supermarket, Park'N Shop (a Connected Person) as its anchor tenant. The supermarket coupled with the tutorial schools draws many destination visitors from the secondary catchment area of approximately 52,000 people. With no new large-scale shopping centre to be built in North Point in the near future, the Market Consultant anticipates that the Provident Centre Property should maintain its current strong position and competitive edge during this period.

### **2.5.3 Strong Retail Market and Robust Local Economy**

According to the Market Consultant's Report, Hong Kong retail sales have grown strongly over the past few years as a result of strong local spending underpinned by the robust local economy. The robust tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rents in the first ten months of 2011. Overall Hong Kong private retail rents<sup>41</sup> have grown by 7.1% over the first ten months in 2011. Furthermore, private retail rents for non-core<sup>42</sup> shopping centres have proved to be relatively more stable than core shopping centres in the few previous market downturns.

As observed in the Market Consultant's Report, non-core shopping centres are also proving increasingly popular among international retailers, driven by the strong competition among international brands for prime spaces in core areas or traditional shopping districts. Therefore, strong performance in the retail sector is no longer confined to core retail areas, but is also evident in non-core retail areas. According to the Market Consultant's Report, the non-core retail rental trend has a relatively high correlation with the overall market and is expected to grow by 7.4% per annum from 2012 to 2015.

The Acquisition will increase Gross Rentable Area<sup>43</sup> of Fortune REIT's retail portfolio by approximately 23.0% to 2.4 million sq ft. The Acquisition provides Unitholders with an opportunity to capitalise on the growing Hong Kong retail market while enhancing Fortune REIT's existing property portfolio through the acquisition of two high quality assets in strategic locations. It also represents an opportunity for Fortune REIT to acquire income-producing properties below their independent valuations.

### **2.5.4 Greater Income Diversification and Increased Economies of Scale**

The Acquisition will further enhance the income diversification of Fortune REIT and reduce the reliance of Fortune REIT's income stream on any one single property. As a result of the Acquisition, the maximum contribution to Fortune REIT's Net Property Income by any single property within Fortune REIT's property portfolio will decrease from 27.1% to 24.0%<sup>44</sup>. Further income diversification means greater resilience and stability of income streams for Fortune REIT, thus benefiting its Unitholders.

<sup>41</sup> This being the rents of retail premises which are a major subset of private commercial premises excluding offices and car parking spaces.

<sup>42</sup> Retail nodes in Hong Kong can be subdivided into core and non-core retail areas. The four core retail areas in Hong Kong are Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, while all other areas in Hong Kong are regarded as non-core retail areas.

<sup>43</sup> "Gross Rentable Area" means, in respect of a property, that portion of the Gross Floor Area of the relevant property determined by the Property Manager at any given time to be rentable.

<sup>44</sup> Based on the audited financials for the year ended 31 December 2010 and assuming the New Properties were acquired on 1 January 2010.



## LETTER TO THE UNITHOLDERS

In addition, the Provident Centre Property will be Fortune REIT's first property acquisition located on the Hong Kong Island. This will allow Fortune REIT to further diversify its property portfolio geographically by increasing exposure in the property market on Hong Kong Island.

The Acquisition will enable Fortune REIT to benefit further from economies of scale as the Manager and the Property Manager can spread fixed operating costs over a larger portfolio, and enjoy cost savings.

### 2.5.5 Efficient Capital Management

The Manager's objective is to maximise returns for Fortune REIT's portfolio and distributions to Unitholders, while maintaining appropriate levels of financial prudence.

Through the Manager's proactive management of the Existing Properties and the general improvement of the Hong Kong retail property market, the valuation of the Existing Properties has increased from HK\$11,500 million as at 31 December 2009, to HK\$13,300 million as at 31 December 2010 and to HK\$15,688 million as at 30 June 2011. The increases in valuation of the Existing Properties led to a corresponding decrease in Fortune REIT's Gearing Ratio / Aggregate Leverage from 23.7% as at 31 December 2009, to 21.0% as at 31 December 2010 and to 20.1% as at 30 September 2011.

The Manager believes that by leveraging on Fortune REIT's strong balance sheet and the support of its core financing banks, Fortune REIT is able to efficiently utilise its available debt headroom to acquire the New Properties without having to raise new equity.

Upon the completion of the Acquisition, Gearing Ratio/Aggregate Leverage of Fortune REIT will be approximately 26.3%<sup>45</sup>. The Manager believes that this level is prudent under the current market conditions and does not exceed the borrowing limits under the Applicable Rules<sup>46</sup> that currently limit (a) the Aggregate Leverage to 35%; and (b) the Gearing Ratio to 45%.

## 2.6 Financing of the Acquisition

The Total Consideration is to be financed by (a) the term loan facility of HK\$1,100 million under the New Facility; (b) a HK\$970 million revolving credit facility (tranche B facility) made available to the Existing Facility Borrowers by a syndicate of banks for whom Standard Chartered Bank acts as facility and security agent under the Existing Facility; and (c) internally generated funds. The term loan facility under the New Facility will be drawn down first, with the revolving credit facility of the Existing Facility and internally generated funds being used to finance the remainder of the Total Consideration.

<sup>45</sup> Computed based on the pro forma figure as at 30 September 2011.

<sup>46</sup> "Applicable Rules" means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time, the REIT Code, the Securities and Futures Act, Chapter 289 of Singapore, the Code on Collective Investment Schemes issued by the MAS (including the Singapore Property Funds Appendix), the listing rules in Hong Kong and Singapore (where applicable), and all other law, rules and regulations in Hong Kong and Singapore applicable to Fortune REIT.

### **2.6.1 The New Facility**

The Manager has on 28 December 2011 accepted a letter of commitment from Australia and New Zealand Banking Group Limited, DBS Bank and Standard Chartered Bank for the New Facility, which consists of a term loan and revolving credit facility.

The New Facility will consist of a Hong Kong dollar 3-year term loan and revolving credit facility of up to an aggregate principal amount of HK\$1,400 million, comprising (a) a HK\$1,100 million term loan facility; and (b) a HK\$300 million revolving credit facility. The New Facility will bear an interest margin of 2.0% per annum over HIBOR, and will mature and become payable three years from the date of the agreement of the New Facility.

The New Facility will be secured by an assignment of rentals, deposits, proceeds and all other income generated from the properties held by the New Property Companies, Full Belief and Genuine Joy, an assignment of the rights in the insurance policies and in the tenancy agreements relating to the respective properties held by the New Property Companies, Full Belief and Genuine Joy, share mortgages over the shares of the New Property Companies, Full Belief, Genuine Joy and relevant intermediate holding companies, legal charges over properties held by the New Property Companies, Full Belief and Genuine Joy, and charge over all other assets of the New Property Companies, Full Belief, Genuine Joy and relevant intermediate holding companies. In addition, it is expected that the Trustee, the New Property Companies, Full Belief, Genuine Joy and relevant intermediate holding companies will provide an unconditional and irrevocable guarantee in favour of the lenders under the facility agreement subject to the recourse of lenders being limited to the Deposited Property of Fortune REIT.

The above HK\$1,100 million term loan facility is intended to be drawn down at Completion and will be used to finance the payment of part of the Total Consideration.

The terms and conditions of the New Facility described in this Circular are indicative only, and may be subject to change, depending on the market conditions at the time the New Facility is finalised and signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the New Facility may differ from, or may comprise additional or fewer terms and conditions as compared with the indicative terms and conditions described in this Circular. To the extent that there are any material changes to the indicative terms and conditions described in this Circular, the Manager will issue an announcement to provide details of such changes.



## 2.6.2 The Existing Facility

Under the terms of the Existing Facility, the Existing Facility Borrowers<sup>47</sup> will draw down the tranche B facility (which is a revolving credit facility in the amount of HK\$970 million under the Existing Facility) prior to or upon Completion to finance the payment of part of the Total Consideration. Such tranche B facility bears interest at a rate of 0.91% above HIBOR<sup>48</sup>, and will mature and become payable on 11 April 2016.

## 2.6.3. Expected Gearing Ratio and Aggregate Leverage

Taking into consideration (1) the Total Consideration; (2) the debt headroom of Fortune REIT with a Gearing Ratio / Aggregate Leverage of 20.1% as at 30 September 2011; and (3) the Existing Facility available and the New Facility that will be available to Fortune REIT, the Manager is able to finance the Transaction using available bank facilities and internally generated funds. Based on the pro forma capitalisation table as stated in section 4.1.4, Fortune REIT's Gearing Ratio / Aggregate Leverage is expected to increase to approximately 26.3% immediately after the Transaction.

## 2.7 Fees and charges payable in relation to the Acquisition

The total fees and charges payable in relation to the Acquisition is estimated to amount to HK\$49.0 million. Accordingly, the total cost of the Acquisition, inclusive of the Total Consideration, is estimated to amount to HK\$1,949.0 million, subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar as applicable. This estimated total cost of the Acquisition represents approximately 18.9% of Fortune REIT's audited NAV/NTA of HK\$10,333.7 million as at 31 December 2010.

### 2.7.1 Fees payable to the Manager in relation to the Acquisition

On Completion, the Manager will be entitled, under clause 15.2.1 of the Trust Deed, to receive an acquisition fee of HK\$19.0 million, which is equal to 1.0% of the acquisition price (i.e. HK\$1,900 million) for the New Properties (the "Acquisition Fee") and shall be paid to the Manager in Units (the "Acquisition Fee Units") as soon as practicable after Completion. The Acquisition Fee will not be subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar.

As the Acquisition is an Interested Party Transaction under the Singapore Property Funds Appendix, the Manager is required to receive the Acquisition Fee in Units. In accordance with paragraph 5.6 of the Singapore Property Funds Appendix, the Units to be issued as payment of the Acquisition Fee are not to be sold within one year from their date of issuance.

In accordance with the Trust Deed, the Manager shall receive such number of Units as may be purchased for the relevant amount of the Acquisition Fee at the prevailing market price on the SGX-ST (in respect of Units which the Manager elects to receive as Units listed on the SGX-ST) or the prevailing market price on the Hong Kong Stock Exchange (in respect of Units which the Manager elects to receive as Units listed

<sup>47</sup> "Existing Facility Borrowers" means the Group Companies which are borrowers under the Existing Facility, including Ace Courage Limited, Art Full Resources Limited, Million Nice Development Limited, Partner Now Limited, Poko Shine Limited, Proven Effort Limited, Quick Switch Limited, Team Challenge Limited, Vision Million Limited, Waldorf Realty Limited and Yee Pang Realty Limited.

<sup>48</sup> "HIBOR" means the rate of interest offered on Hong Kong dollar loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year.

<b>LETTER TO THE UNITHOLDERS</b>
----------------------------------

on the Hong Kong Stock Exchange), as the case may be, at the time of the issue of such Units. The Manager has elected to receive the Acquisition Fee Units as Units listed on the SGX-ST, at the prevailing market price on the SGX-ST.

As soon as practicable after the issuance of Acquisition Fee Units, the Manager will issue an announcement setting out the number and nature of the Acquisition Fee Units issued to the Manager.

#### **2.7.2 Additional costs payable in relation to the Acquisition**

Fortune REIT incurred or is expected to incur other estimated fees and expenses (including stamp duty, advisory fees, professional fees and expenses) of approximately HK\$30.0 million in connection with the Acquisition.

#### **2.7.3 Ongoing fees and charges payable to the Manager and the Trustee in relation to the New Properties following Completion**

After Completion, and as disclosed in the listing document dated 31 March 2010 of Fortune REIT in connection with the listing of its Units by way of introduction on the Hong Kong Stock Exchange (the “**Introduction Listing Document**”):

- (1) the Manager will be entitled under the Trust Deed to receive from the Deposited Property, management fees attributable to the New Properties comprising (a) a base fee of 0.3% per annum of the value of the New Properties; and (b) a performance fee of 3.0% per annum of the Net Property Income attributable to the New Properties; and
- (2) the Trustee will receive a trustee fee at the current rate of 0.035% per annum of the value of the New Properties.

The Manager and the Trustee will be entitled to such fees attributable to the New Properties in the future for so long as the New Properties continue to form part of the Deposited Property.

<b>LETTER TO THE UNITHOLDERS</b>
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**3. INFORMATION ON THE NEW PROPERTIES**

**3.1 Belvedere Garden Property**

**3.1.1 Description**

Fortune REIT will acquire the Belvedere Garden Property, which is part of the Belvedere Garden Development.

The Belvedere Garden Property, which had a total Gross Rentable Area of 276,862 square feet ("sq. ft.") (excluding parking lots) as at 30 September 2011, comprises shops, clinics, kindergartens, a market and various parking lots. The Belvedere Garden Property comprises three phases, as shown in the table below:

	Belvedere Garden Property
Belvedere Garden Property Phase I . . . . .	All of the commercial areas (shops, clinics and a kindergarten), 15 motorcycle parking spaces and 66 carparks in Belvedere Garden Development Phase I
Belvedere Garden Property Phase II. . . . .	All of the commercial areas (shops and a kindergarten), except for a shop on the ground floor which has been assigned to The Financial Secretary Incorporated of Hong Kong <sup>(1)</sup> , 52 carparks and common areas <sup>(2)</sup> in Belvedere Garden Development Phase II
Belvedere Garden Property Phase III . . . . .	All of the commercial areas (shops, market, and a kindergarten) and 196 carparks and common areas <sup>(2)</sup> in Belvedere Garden Development Phase III

Notes:

- (1) Please see section 2.5 of Appendix 8 of this Circular headed "Summary of Government Grants and Deeds of Mutual Covenant" for further information regarding this shop. The shop accounts for 3.7% of the undivided shares of the commercial area of Belvedere Garden Development Phase II, while Belvedere Garden Property Phase II accounts for the remaining 96.3% of the undivided shares of the commercial area of Belvedere Garden Development Phase II.
- (2) The common areas of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III and the undivided shares allocated thereto are held by Wilmington Land Company Limited, Ling Fung Development Limited and Quebostar as trustee on behalf of all the owners of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III respectively under the relevant deed of mutual covenant or an instrument of a similar nature (which is an agreement between the co-owners to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building's effective maintenance and management) ("DMC"). The common areas generate no income and have no commercial value.

The Belvedere Garden Property will be wholly-owned by Fortune REIT through the Belvedere Garden Holding Companies. Each of the Belvedere Garden Holding Companies is a special purpose vehicle, whose principal business activity is the ownership and/or operation of the Belvedere Garden Property. A chart showing the proposed property holding structure of Fortune REIT immediately after Completion (including the Belvedere Garden Holding Companies) is included in Appendix 9 headed "Structure Charts" to this Circular.

**LETTER TO THE UNITHOLDERS**

**3.1.2 Surrounding Environment**

The Belvedere Garden Property is located in a strip of residential land along the waterfront near the western end of Tsuen Wan. It is part of the Belvedere Garden Development, a large scale development which also includes about 6,000 flats in 19 residential tower blocks.

The Belvedere Garden Property serves the local needs within the Belvedere Garden Development and the residential catchment of nearby estates. It also serves the schools and industrial buildings around its area.

The Belvedere Garden Property is in close proximity to both the Tsuen Wan MTR station and the Tsuen Wan West MTR station. It is easily accessible by private and public transportation such as taxis and franchised buses for shoppers.

**3.1.3 Key Information**

The table below sets out certain key information on the Belvedere Garden Property as at 30 September 2011, unless otherwise indicated.

Gross Rentable Area (excluding parking lots) . . . . .	276,862 sq. ft.
Government Grant expiry . . . . .	30 June 2047
Year and month of completion . . . . .	Phase I — July 1987 Phase II — October 1989 Phase III — April 1991
Number of tenants . . . . .	100
Number of parking lots . . . . .	329
Valuation . . . . .	HK\$1,300.0 million by Knight Frank (appointed by the Trustee) HK\$1,340.0 million by Savills (appointed by the Manager) HK\$1,250.0 million
Purchase consideration . . . . .	
Ownership holding of (direct or indirect) Fortune REIT upon Completion . . . . .	100%
Occupancy rate <sup>(1)</sup> . . . . .	98.7% <sup>(2) (3)</sup>
Net Property Income <sup>(4)</sup> . . . . .	HK\$51.5 million
Monthly rental per leased square foot <sup>(5)</sup> . . . . .	HK\$19.5
Gross Rentable Area leased to top five tenants as a percentage of total Gross Rentable Area <sup>(6)</sup> . . . . .	39.5%
Gross Rental Income from top five tenants as a percentage of total Gross Rental Income <sup>(7)</sup> . . . . .	29.0%

Notes:

- (1) The occupancy rate is calculated based on leased Gross Rentable Area in sq. ft., excluding the parking lots as at 30 September 2011.
- (2) The percentage of total Gross Rentable Area leased to Connected Persons as at 30 September 2011 was 19.8%.
- (3) The percentage of total Gross Rental Income from Connected Persons for the month ended 30 September 2011 was 16.4%.

## LETTER TO THE UNITHOLDERS

- (4) Based on Net Property Income for the year ended 31 December 2010 (before the Manager's Performance Fee<sup>49</sup>).
- (5) The monthly rental per leased square foot is calculated by dividing the Gross Rental Income for the month ended September 2011 by the leased Gross Rentable Area as at 30 September 2011.
- (6) Based on Gross Rentable Area leased to each tenant as at 30 September 2011.
- (7) Based on each tenant's percentage contribution to Gross Rental Income of the Belvedere Garden Property for the month ended 30 September 2011.

### 3.1.4 Tenant Profile and Details of Tenancy Mix

The table below sets out details of the Belvedere Garden Property's overall tenant diversification, in terms of trade sub-sector by reference to total Gross Rentable Area as at 30 September 2011 and total Gross Rental Income<sup>50</sup> for the month ended 30 September 2011:

<u>Trade sector</u>	<u>Percentage by Gross Rentable Area</u>	<u>Percentage by Gross Rental Income</u>	<u>Name of major tenants in the relevant sector</u>
Banking & Real Estate Services . . . . .	3.4%	17.1%	Centaline Property Agency Ltd.
Community Services . . . . .	1.4%	0.6%	—
Electronics & IT . . . . .	0.1%	1.3%	—
Fashion & Shoes . . . . .	0.6%	1.1%	—
Food & Beverages . . . . .	18.5%	19.6%	New Star Seafood Restaurant
Gifts & Speciality, Hobbies, Toys, Jewellery . . . . .	0.3%	0.9%	—
Homewares & Home Furnishings . . . . .	1.6%	3.0%	—
Services & Education . . . . .	42.3%	36.9%	Sun King Home of Age Ltd
Supermarkets . . . . .	8.2%	9.2%	Park'N Shop <sup>(1)</sup>
Wet Markets . . . . .	12.1%	6.3%	Belvedere (Allmart) Chinese Market
Others . . . . .	10.2%	4.0%	—
Vacant . . . . .	1.3%	N/A	—
<b>Total . . . . .</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	—

Note:

- (1) A Connected Person of Fortune REIT.

<sup>49</sup> "Manager's Performance Fee" means the annual performance fee of 3.0% per annum from each of the Property Companies of the Net Property Income of the relevant Property Company.

<sup>50</sup> "Gross Rental Income" consists of rental income and license income due from tenancies but excludes Turnover Rent.

## LETTER TO THE UNITHOLDERS

### 3.1.5 Schedule of Tenancy Expiries

The following table sets forth details of the percentage of expiries in respect of the tenancies of the Belvedere Garden Property as at 30 September 2011, which are scheduled to take place during the periods indicated below:

<u>Period</u>	<u>Gross Rentable Area of tenancies expiring as a percentage of total Gross Rentable Area</u>	<u>Gross Rental Income of tenancies expiring as a percentage of total Gross Rental Income<sup>(1)</sup></u>
Three months ending 31 December 2011 .....	8.3%	9.8%
Year ending 31 December 2012 .....	43.5%	40.4%
Year ending 31 December 2013 .....	17.7%	32.4%
Year ending 31 December 2014 .....	29.2%	17.4%
Year ending 31 December 2015 and beyond .....	0.0%	0.0%
Vacant. ....	1.3%	N/A
<b>Total .....</b>	<b>100%</b>	<b>100%</b>

Note:

(1) Based on total Gross Rental Income for the month ended 30 September 2011.

### 3.1.6 Delinquency Rates<sup>51</sup>

In respect of the Belvedere Garden Property, no write-offs or provisions for unpaid rents were made for the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011.

## 3.2 Provident Centre Property

### 3.2.1 Description

Fortune REIT will acquire the Provident Centre Property, which is part of the Provident Centre Development.

The Provident Centre Property, as at 30 September 2011, had a total Gross Rentable Area of 180,238 sq. ft. The Provident Centre Property comprises the shopping centre at the basement, ground floor, upper ground floor (but excluding carparks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the Provident Centre Development.

The Provident Centre Property will be wholly-owned by Fortune REIT through the Provident Centre Holding Company, a special purpose vehicle whose principal business activity is the ownership and operation of the Provident Centre Property. A chart showing the proposed property holding structure of Fortune REIT immediately after Completion (including the Provident Centre Holding Company) is included in Appendix 9 headed "Structure Charts" to this Circular.

<sup>51</sup> The delinquency rate is calculated by dividing the rental receivables that remain unpaid for over 90 days after their due dates by the Gross Revenue for the year.

## LETTER TO THE UNITHOLDERS

### 3.2.2 Surrounding Environment

The Provident Centre Property is located at the harbourfront along the Island Eastern Corridor in North Point. It is part of the Provident Centre Development, a large scale residential development which also includes about 1,450 flats in 17 residential tower blocks.

The Provident Centre Property serves the residents in the Provident Centre Development and the nearby City Garden which houses about 2,400 flats. The Provident Centre Property also serves the few hotels nearby, as well as schools and office blocks around its area.

The Provident Centre Property is in close proximity to the North Point MTR station, which is the interchange station between Hong Kong Island and East Kowloon. The Provident Centre Property is also easily accessible by other public transportation such as buses, trams and mini-buses.

### 3.2.3 Key Information

The table below sets out certain key information on the Provident Centre Property as at 30 September 2011, unless otherwise indicated.

Gross Rentable Area (excluding parking lots) . . . . .	180,238 sq. ft.
Government Grant expiry . . . . .	4 September 2071
Year and month of completion . . . . .	May 1984
Number of tenants . . . . .	47
Number of parking lots . . . . .	Nil
Ownership holding of (direct or indirect) Fortune REIT upon Completion . . . . .	100%
Valuation . . . . .	HK\$680.0 million by both Independent Property Valuers
Purchase consideration . . . . .	HK\$650.0 million
Occupancy rate <sup>(1)</sup> . . . . .	92.3% <sup>(2) (3)</sup>
Net Property Income <sup>(4)</sup> . . . . .	HK\$27.8 million
Monthly rental per leased square foot <sup>(5)</sup> . . . . .	HK\$16.5
Gross Rentable Area leased to top five tenants as a percentage of total Gross Rentable Area <sup>(6)</sup> . . . . .	53.1%
Gross Rental Income from top five tenants as a percentage of total Gross Rental Income <sup>(7)</sup> . . . . .	51.3%

Notes:

- (1) The occupancy rate is calculated based on leased Gross Rentable Area in sq. ft. as at 30 September 2011.
- (2) The percentage of total Gross Rentable Area leased to Connected Persons as at 30 September 2011 was 40.2%.
- (3) The percentage of total Gross Rental Income from Connected Persons for the month ended 30 September 2011 was 41.3%.
- (4) Based on Net Property Income for the year ended 31 December 2010 (before the Manager's Performance Fee).
- (5) The average monthly rental per leased square foot is calculated by dividing the Gross Rental Income for the month ended September 2011 by the leased Gross Rentable Area as at 30 September 2011.

**LETTER TO THE UNITHOLDERS**

- (6) Based on Gross Rentable Area leased to each tenant as at 30 September 2011.
- (7) Based on each tenant's percentage contribution to Gross Rental Income of the Provident Centre Property for the month ended 30 September 2011.

**3.2.4 Tenant Profile and Details of Tenancy Mix**

The table below sets out details of the Provident Centre Property's overall tenant diversification, in terms of trade sub-sector by reference to total Gross Rentable Area as at 30 September 2011 and total Gross Rental Income for the month ended 30 September 2011:

<u>Trade sector</u>	<u>Percentage of Gross Rentable Area</u>	<u>Percentage by Gross Rental Income</u>	<u>Name of major tenants in the relevant sector</u>
Electronics & IT . . . . .	6.6%	6.7%	—
Fashion & Shoes . . . . .	4.2%	8.6%	Nike Factory Outlet
Food & Beverages . . . . .	6.4%	5.8%	—
Gifts & Speciality, Hobbies, Toys, Jewellery . . . .	3.5%	4.4%	Wonderland Superstore
Homewares & Home Furnishings . . . . .	13.9%	12.4%	Hung Lee Furniture
Leisure & Entertainment, Sports & Fitness. . . . .	9.5%	6.1%	Jumpin Gym USA Ltd
Services & Education . . . . .	15.5%	22.5%	—
Supermarkets. . . . .	32.4%	33.4%	Park'N Shop <sup>(1)</sup>
Others . . . . .	0.3%	0.1%	—
Vacant . . . . .	7.7%	N/A	—
<b>Total. . . . .</b>	<b>100%</b>	<b>100%</b>	—

Note:

- (1) A Connected Person of Fortune REIT.



## LETTER TO THE UNITHOLDERS

### 3.2.5 Schedule of Tenancy Expiries

The following table sets forth details of the percentage of expiries in respect of the tenancies of the Provident Centre Property as at 30 September 2011, which are scheduled to take place during the periods indicated below:

<u>Period</u>	<u>Gross Rentable Area of tenancies expiring as a percentage of total Gross Rentable Area</u>	<u>Gross Rental Income of tenancies expiring as a percentage of total Gross Rental Income<sup>(1)</sup></u>
Three months ending 31 December 2011.....	37.7%	40.0% <sup>(2)</sup>
Year ending 31 December 2012 .....	21.5%	21.1%
Year ending 31 December 2013 .....	14.5%	18.1%
Year ending 31 December 2014 .....	18.6%	20.8%
Year ending 31 December 2015 and beyond .....	0.0%	0.0%
Vacant.....	7.7%	N/A
<b>Total .....</b>	<b>100%</b>	<b>100%</b>

Notes:

- (1) Based on total Gross Rental Income for the month ended 30 September 2011.
- (2) The Manager notes that 40.0% of the Provident Centre Property's total Gross Rental Income will expire for the three months ending 31 December 2011, out of which 33.4% of the Gross Rental Income relates to the tenancy of Park'N Shop. The Manager understands that the lease(s) will be renewed upon expiry.

### 3.2.6 Delinquency Rates<sup>52</sup>

In respect of the Provident Centre Property, no write-offs or provisions for unpaid rents were made for the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011.

### 3.3 Insurance

Fortune REIT will insure the New Properties upon signing of the Purchase Agreement in the manner which the Manager believes to be consistent with industry practice in Hong Kong. This will include comprehensive property insurance (including insurance against fire and flood and providing coverage for the reinstatement value of the New Properties), business interruption insurance for at least 12 months from the date of signing of the Purchase Agreements, and public liability insurance. There will be no significant or unusual excess or deductible amounts required under such policies. There will be, however, certain types of risks that are not covered by such insurance policies, including losses resulting from war, nuclear contamination, earthquakes, infectious or contagious diseases and acts of terrorism.

<sup>52</sup> The delinquency rate is calculated by dividing the rental receivables that remain unpaid for over 90 days after their due dates by the Gross Revenue for the year.

### 3.4 Tenancy Agreements

The tenancy agreements entered into for the New Properties are generally for terms ranging from two to three years, depending on factors such as the needs of tenants. Longer lease terms are sometimes granted for larger premises or where it is necessary for a prospective tenant to incur a significant initial capital expenditure but subject to a periodic rent review (generally every three years) at prevailing market rates or as required under the Government Grant. Most tenancies have been fixed for terms with no option to renew, although some of the large tenants of the New Properties have an option to renew their tenancies for additional terms at prevailing market rates.

Tenancies that provide for rent reviews or renewal options at prevailing market rates require the landlord and the tenant to agree on the market rent for the new rent period. If the parties fail to agree on the new rent by a pre-set date, typically one or two months before the commencement of the new rent period, the matter is required to be referred to an independent valuer to be agreed and appointed by the landlord and the tenant. Failing an agreement, either party may ask a designated independent third party to appoint a valuer to act as an expert (and not an arbitrator) to determine the market rent for the new rent period. Each party has the opportunity to make representations to the valuer. The valuer's determination is final and binding on the landlord and the tenant.

At the time of entering into a tenancy, tenants of the New Properties are required to provide a security deposit of approximately two or three months' rent, as well as building management fees and the Government of the Hong Kong Special Administrative Region ("**Government**") rates in cash or in the form of a bank guarantee in lieu of cash. Security deposits are unsecured and do not bear interest. Tenants generally are required to pay their monthly rent in advance. Consistent with market practice, rent-free periods, which varies depending on market conditions at time of negotiation, are commonly granted on new tenancies.

Under the tenancy agreements, tenants are normally responsible for payment of outgoings including utilities, building management fees, Government rates and Government rent. Tenants are generally also responsible for repair costs and for all other expenses relating to the interior of the premises, while the landlord is generally responsible for repair costs relating to the main building structure. In the event that the premises or any part of it is rendered unfit for use or inaccessible by fire, typhoon, act of God, force majeure or by any cause beyond the control of the landlord other than as a result of the negligence or fault of the tenants, the tenants are usually entitled to rent abatement after expiration of the then current month until the premises shall again be rendered fit for occupation. Tenants are generally not permitted to assign or sublet the premises, except in certain cases where assignment or subletting to entities within the same group is permitted.

The majority of tenancy agreements do not give tenants the right to terminate their tenancies prior to the scheduled expiration dates. The landlord has the right to terminate a tenancy upon the occurrence of certain events, such as non-payment of rent or breach of covenants by the tenants. In addition, most of the tenancy agreements provide that the landlord may terminate the tenancy at any time during the term if the landlord shall resolve to sell or redevelop the premises, by serving six months' notice on the tenant. The tenants are required under the tenancy agreements to use the leased premises for the purpose allowed under the Government Lease and the occupation permits of the relevant buildings.

Certain tenants have also entered into agreements for certain signage rights in respect of the New Properties.

## LETTER TO THE UNITHOLDERS

As noted in section 3.5 below, the Trustee will hold the New Properties pursuant to the terms and conditions of the relevant Government Grant. Pursuant to a covenant in the Government Grant for the Provident Centre Property, a Sub-Lease dated 20 February 1997 Memorial No.UB7050948 was entered into between the Provident Centre Vendor (Provident Commercial Investments Limited) as Sub-Lessor and The Financial Secretary Incorporated of Hong Kong as Sub-Lessee for lease of the spaces provided for Government Institutional and Community purposes on the Ground Floor and Basement Floor of the Phase II Commercial Podium of the Provident Centre Property for the term commencing on 2nd day of September 1996 and expiring on the 29th day of August 2071 at an annual rent of one dollar in Hong Kong currency (if demanded). The Sub-Lease, which Fortune REIT will inherit as a result of the Government Grant covenant, generates no income and has no commercial value. Accordingly, the Independent Property Valuers have assigned no value to the Sub-Lease and have not included this space in calculating the Gross Rentable Area of the Provident Centre Property. For further information regarding the Government Grants, please see Appendix 8 headed "Summary of Government Grants and Deeds of Mutual Covenant" to this Circular.

### 3.5 Ownership

Fortune REIT will not directly hold the New Properties. Instead, they will be held on trust for Fortune REIT by the Trustee in accordance with the provisions of the Trust Deed. More specifically, the Trustee will hold the New Property Companies which, in turn, will hold the New Properties pursuant to a Government Grant. The Government Grant contain terms and conditions ordinarily found in grants or leases granted by the Government. For example, the leases contain provisions requiring the lessee:

- (1) to develop or redevelop the land in compliance with the buildings and town planning legislation and regulations;
- (2) to use the land and buildings erected on the land for the permitted use;
- (3) to maintain all buildings erected on the land in good and substantial repair and condition;
- (4) to maintain and repair any slopes, retaining walls or other supports to the satisfaction of the Government;
- (5) to pay the yearly government rent and discharge all taxes, rates, charges and assessments imposed on the land; and
- (6) not to encroach upon or occupy any adjoining Government land.

The Government has a right to terminate the lease and re-enter the land in the event the lessee fails to observe or perform the terms and conditions of the Government Grant.

A chart showing the proposed property holding structure of Fortune REIT immediately after Completion is included in Appendix 9 headed "**Structure Charts**" to this Circular.

### 3.6 Management Strategy for the Properties

#### 3.6.1 Overall Strategy

Should the Acquisition be completed, the Manager intends to continue with the same key objectives and principal investment strategies for Fortune REIT, which are described in the section headed “**Strategy**” in the Introduction Listing Document. Certain aspects of these strategies are described below.

##### 3.6.1.1 *Proactive Lease Management*

The Manager will formulate leasing strategies and pursue initiatives to maximise the market potential and long-term profitability of the Existing Properties and the New Properties (the “**Properties**”). One of the key initiatives is to maintain high occupancy rates across the portfolio by proactively managing lease renewals and advancing renewal negotiations with tenants whose leases are approaching expiry. As leases expire, the Manager will have the opportunity to change rental rates, revise lease terms and conditions, relocate existing tenants, and reconfigure or expand tenant spaces. Based on each retailer’s needs and the positioning of the individual Property, the Manager may negotiate to expand a successful retailer’s space, or take back space from an underperforming retailer. In addition to sustaining high tenant retention levels, the Manager seeks to minimise void periods and associated interruptions in rental income arising from non-renewals and early termination of leases, by:

- (a) being active in strengthening relationships with retailers in general;
- (b) sourcing and building up a strong base of prospective tenants; and
- (c) obtaining commitments from new retailers and securing new tenants for existing available space and planned expansions.

##### 3.6.1.2 *Continual Improvement in Tenant Mix*

The Manager will monitor the tenant profile and trade mix within each Property and ensure that they are optimised on an ongoing basis. To adapt to particular shopper profiles of individual Properties or changes in consumer trends and needs over time, the Manager may also introduce new retailers and retail concepts to the Properties. At the same time, the Manager will carefully monitor the portfolio for excessive exposure to any particular business sectors so as to provide stability in rental income.

##### 3.6.1.3 *Active Marketing and Promotion*

The Manager develops proactive marketing plans to enhance tenant interest and visibility of the Properties. The objective is to bring additional shopper traffic to the Properties and potentially increase sales revenue of the tenants. In some cases, promotion events may also require leasing of promotion venues and bring additional income to the Properties.

##### 3.6.1.4 *Asset Enhancement Initiatives*

The Manager will work closely with the Property Manager to improve the rental income and value of the portfolio by undertaking asset enhancement initiatives. To the extent possible and permitted by the relevant Government

Grants, deeds of mutual covenant and any applicable building laws and regulations, the Manager will rationalise the use of space, create more rentable area and improve building efficiency. The Manager may reconfigure unit size and layout not only to maximise rentable area, but also to improve shopfront and shopper circulation. Also, tenants may be relocated to more suitable locations within the Property so that shoppers can enjoy easier navigation and enhanced shopping experience with systemically clustered trades within a mall. The Manager will also review the Properties' competitiveness against other retail malls in surrounding areas and upgrade building facilities to improve the shopping environment, thereby increasing sales revenue of the tenants and, potentially, rental income to the Properties. Such refurbishment opportunities may include improvement of interior and exterior signage, lighting, restroom facilities and other aesthetic and environmental aspects of the Properties to enhance the attractiveness of the Properties to shoppers as well as tenants.

As at the Latest Practicable Date, the Manager had no specific plans for renovation or improvement of the New Properties. The Manager may or may not carry out such activities depending on the needs of the New Properties as the Manager considers appropriate.

#### ***3.6.1.5 Control Property Expenses while Delivering Quality Service***

In order to deliver optimal returns, the Manager will work closely with the Property Manager to control property expenses without compromising the quality of services to its tenants. This can be achieved through initiatives such as:

- (a) leveraging Fortune REIT's large portfolio size for cost savings through bulk sourcing and purchasing of services and supplies;
- (b) streamlining property management functions across the portfolio;
- (c) implementing cost control management systems; and
- (d) reviewing periodically the Properties' overall energy needs, consumption patterns and operational efficiency of equipments with a view to develop more energy-efficient practices and achieve cost savings on utilities.

#### **3.6.2 Management of the New Properties**

Upon Completion, the Manager will have the general power of management over the New Properties and its main responsibility is to manage the New Properties, as well as other assets and liabilities of Fortune REIT, for the benefit of the Unitholders. In particular, the Manager will be responsible for the day-to-day management of the New Properties (working with and supervising the Property Manager in this regard), making recommendations to the Trustee on the annual budget and the management and operation of the Target Company and the Belvedere Garden (Remaining Portion) Holding Company owning the Belvedere Garden (Remaining Portion) Property and the Provident Centre Holding Company owning the Provident Centre Property, and generally carrying out the activities in relation to the New Properties in accordance with the provisions of the Trust Deed.

### **3.7 Competition**

The New Properties are located in established residential areas and benefit from a large resident population within its immediate catchment area. In addition, the New Properties are well-served by public transportation systems which add to the ease of shopper access. The New Properties cater mainly to the daily needs and necessities of the residents in the catchment area. The Market Consultant has analysed the competitive conditions of the New Properties. For details, please refer to Appendix 5 headed “**Market Consultant’s Report**” to this Circular.

## **4. FINANCIAL EFFECTS OF THE TRANSACTION**

The following information is presented for illustrative purposes only and is based on the assumptions outlined below. The Manager considers these assumptions to be appropriate and reasonable as at the date of this Circular. However, Unitholders should consider the information outlined below in the light of such assumptions and make their own assessment of the future performance of Fortune REIT.

Based on the pro forma financial effects of the Acquisition as stated in section 4.1 below as well as Appendix 3 to this Circular which provides a more detailed illustration of the financial effects of the Transaction, the Manager does not foresee any material adverse impact on the financial position of Fortune REIT as a result of the Transaction.

### **4.1 Pro Forma Financial Effects of the Acquisition**

The pro forma financial effects of the Transaction presented below are strictly for illustrative purposes only and were prepared based on:

- the audited financial statements of Fortune REIT for the year ended 31 December 2010;
- the unaudited financial statements of Fortune REIT for the six months ended 30 June 2011;
- the unaudited financial position of Fortune REIT as at 30 September 2011; and
- the audited financial statements of Target Company Group and the portion of Quebostar represented by the Minority Shareholders Shares for the year ended 31 December 2010 and for the six months ended 30 June 2011 as set out in Appendix 2 to this Circular.

and assuming:

- (a) Fortune REIT had acquired the New Properties on the dates as indicated and that they were valued at the Total Consideration on these dates;
- (b) the Total Consideration is HK\$1,900.0 million;
- (c) the Total Consideration will be funded by the New Facility and the Existing Facility at an annual interest rate of HIBOR plus 2.00% and HIBOR plus 0.91% respectively and internally generated funds; and
- (d) 5.3 million Units will be issued to the Manager in payment of the Acquisition Fee at HK\$3.58 per Unit being the closing market price per Unit of Fortune REIT quoted from SGX-ST as at the Latest Practicable Date.

## LETTER TO THE UNITHOLDERS

### 4.1.1 Financial Year ended 31 December 2010

#### *Pro forma DPU*

The pro forma financial effects of the Acquisition on the DPU for the financial year ended 31 December 2010, as if Fortune REIT had purchased the New Properties on 1 January 2010, and held and operated the New Properties through to 31 December 2010, are as follows:

	Before the Acquisition	After the Acquisition
Distributable income (HK\$'000) .....	406,487 <sup>(1)</sup>	430,265
Units in issue and to be issued ('000) .....	1,671,600 <sup>(2)</sup>	1,678,499 <sup>(3)</sup>
DPU (HK cents) .....	24.35 <sup>(4)</sup>	25.63 <sup>(5)</sup>

Notes:

- (1) Based on audited financial statements of Fortune REIT for the financial year ended 31 December 2010.
- (2) Number of issued and issuable Units as at 31 December 2010.
- (3) Includes (i) approximately 5.3 million new Units issued as Acquisition Fee Units; and (ii) approximately 1.6 million new Units issued as part payment for the Manager's management fee for the New Properties for the financial year ended 31 December 2010, both at an assumed issue price of HK\$3.58 per Unit.
- (4) Actual DPU of Fortune REIT for the period from 1 January 2010 to 31 December 2010.
- (5) Computed based on the distributable income of Fortune REIT, the Target Company, the portion of Quebostar represented by the Minority Shareholders Shares, the Belvedere Garden (Remaining Portion) Holding Company and the Provident Centre Holding Company (collectively, the "Enlarged Group") for the financial year ended 31 December 2010 over the number of Units issued and issuable by the Enlarged Group as at 31 December 2010.

### 4.1.2 As at 31 December 2010

#### *Pro forma NAV per Unit*

The pro forma financial effects of the Acquisition on the net asset value ("NAV") per Unit as at 31 December 2010, as if Fortune REIT had purchased the New Properties on 31 December 2010, are as follows:

	Before the Acquisition	After the Acquisition <sup>(1)</sup>
NAV (HK\$'000) .....	10,333,688 <sup>(2)</sup>	10,303,688 <sup>(3)</sup>
Units in issue and to be issued ('000) .....	1,671,600	1,676,907 <sup>(4)</sup>
NAV per Unit (HK\$) .....	6.18	6.14

Notes:

- (1) The financial position of the Enlarged Group is based on: (a) the audited financial position of Fortune REIT, the Target Company and the portion of Quebostar represented by the Minority Shareholders Shares as at 31 December 2010; and (b) assuming the acquisition of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property was completed on 31 December 2010.
- (2) Based on the audited financial statements for the financial year ended 31 December 2010.
- (3) The decrease in net asset value is attributed to the costs related to the Acquisition including stamp duty, advisory fees, professional fees and expenses (estimated to be HK\$30.0 million) which will be paid in cash.

## LETTER TO THE UNITHOLDERS

- (4) Includes approximately 5.3 million new Units issued as Acquisition Fee Units, at an assumed issue price of HK\$3.58 per Unit.

### *Pro forma capitalisation*

The following table sets forth the pro forma capitalisation of Fortune REIT as at 31 December 2010, as if Fortune REIT had purchased the New Properties on 31 December 2010.

	As at 31 December 2010	
	Actual	Pro forma
	(HK\$ '000)	(HK\$ '000)
<b>Short-term debt:</b>		
Unsecured .....	—	—
Secured .....	79,000	386,579
Total short-term debt .....	79,000	386,579
<b>Long-term debt:</b>		
Unsecured .....	—	—
Secured .....	2,828,700	3,928,700
Total long-term debt .....	2,828,700	3,928,700
Total debt .....	2,907,700	4,315,279
Net assets attributable to Unitholders .....	10,333,688	10,303,688
<b>Total capitalisation .....</b>	<b>13,241,388</b>	<b>14,618,967</b>
Gearing Ratio / Aggregate Leverage .....	21.0%	28.3%

### 4.1.3 Six Months ended 30 June 2011

#### *Pro forma DPU*

The pro forma financial effects of the Acquisition on the DPU for the six months ended 30 June 2011, as if Fortune REIT had purchased the New Properties on 1 January 2011, and held and operated the New Properties through to 30 June 2011, are as follows:

	Before the Acquisition	After the Acquisition
Distributable income (HK\$'000) .....	214,805 <sup>(1)</sup>	230,010
Units in issue and to be issued ('000) .....	1,677,297 <sup>(2)</sup>	1,683,401 <sup>(3)</sup>
DPU (HK cents) .....	12.80 <sup>(4)</sup>	13.66 <sup>(5)</sup>

Notes:

- (1) Based on unaudited financial statements of Fortune REIT for the six months ended 30 June 2011.
- (2) Number of issued and issuable Units as at 30 June 2011.
- (3) Includes (i) approximately 5.3 million new Units issued as Acquisition Fee Units; and (ii) approximately 0.8 million new Units issued as part payment for the Manager's management fee for the New Properties for the six months ended 30 June 2011, both at an assumed issue price of HK\$3.58 per Unit.
- (4) Actual DPU of Fortune REIT for the period from 1 January 2011 to 30 June 2011.
- (5) Computed based on the distributable income of the Enlarged Group for the six months ended 30 June 2011 over the number of Units issued and issuable by the Enlarged Group as at 30 June 2011.



**LETTER TO THE UNITHOLDERS**

**4.1.4 As at 30 September 2011**

***Pro forma NAV per Unit***

The pro forma financial effects of the Acquisition on the NAV per Unit as at 30 September 2011, as if Fortune REIT had purchased the New Properties on 30 September 2011, are as follows:

	<u>Before the Acquisition</u>	<u>After the Acquisition<sup>(1)</sup></u>
NAV (HK\$ '000) . . . . .	12,572,655 <sup>(2)</sup>	12,542,655 <sup>(3)</sup>
Units in issue and to be issued ('000) . . . . .	1,680,696	1,686,003 <sup>(4)</sup>
NAV per Unit (HK\$). . . . .	7.48	7.44

Notes:

- (1) The financial position of the Enlarged Group is based on: (a) the unaudited financial position of Fortune REIT as at 30 September 2011; (b) the audited financial position of the Target Company and the portion of Quebostar represented by the Minority Shareholders Shares as at 30 June 2011; and (c) assuming the acquisition of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property was completed on 30 September 2011.
- (2) Based on the unaudited financial position of Fortune REIT as at 30 September 2011.
- (3) The decrease in net asset value is attributed to the costs related to the Acquisition including stamp duty, advisory fees, professional fees and expenses (estimated to be HK\$30.0 million) which will be paid in cash.
- (4) Includes approximately 5.3 million new Units issued as Acquisition Fee Units, at an assumed issue price of HK\$3.58 per Unit.

***Pro forma capitalisation***

The following table sets forth the pro forma capitalisation of Fortune REIT as at 30 September 2011, as if Fortune REIT had purchased the New Properties on 30 September 2011.

	<u>As at 30 September 2011</u>	
	<u>Actual</u>	<u>Pro forma</u>
	(HK\$'000)	(HK\$'000)
<b>Short-term debt:</b>		
Unsecured . . . . .	—	—
Secured . . . . .	520,000	820,000
Total short-term debt . . . . .	<u>520,000</u>	<u>820,000</u>
<b>Long-term debt:</b>		
Unsecured . . . . .	—	—
Secured . . . . .	2,830,000	3,930,000
Total long-term debt . . . . .	<u>2,830,000</u>	<u>3,930,000</u>
Total debt . . . . .	3,350,000	4,750,000
Net assets attributable to Unitholders. . . . .	<u>12,572,655</u>	<u>12,542,655</u>
<b>Total capitalisation . . . . .</b>	<u><u>15,922,655</u></u>	<u><u>17,292,655</u></u>
<b>Gearing Ratio / Aggregate Leverage . . . . .</b>	20.1%	26.3%

## 5. RISK FACTORS

### 5.1 Risks Attached to Investments in Real Estate and the New Properties

Please note that the Transaction may also involve risks and that investments in real estate are subject to various risks, including, but not limited to:

- (1) adverse changes in political or economic conditions;
- (2) adverse local market conditions;
- (3) the financial condition of tenants and buyers and sellers of properties;
- (4) changes in availability of debt or equity financing, which may result in an inability by Fortune REIT to finance future acquisitions on favourable terms or at all;
- (5) changes in interest rates and other operating expenses;
- (6) changes in environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- (7) environmental claims arising in respect of real estate;
- (8) changes in market rents;
- (9) changes in energy prices;
- (10) changes in the relative popularity of property types and locations leading to an oversupply of space or a reduction in tenant demand for a particular type of property in a given market;
- (11) competition among property owners for tenants which may lead to vacancies or an inability to rent space on favourable terms, as further described in section 3.7 headed "**Information on the New Properties – Competition**" in this Circular;
- (12) inability to renew tenancies or re-let space as existing tenancies expire;
- (13) inability to collect rents from tenants on a timely basis or at all due to bankruptcy or insolvency of tenants or otherwise;
- (14) insufficiency of insurance coverage or increases in insurance premiums;
- (15) increases in the rate of inflation;
- (16) inability of the Property Manager to provide or procure the provision of adequate maintenance and other services;
- (17) defects affecting the portfolio properties which need to be rectified, or other required repair and maintenance of the portfolio properties, leading to unforeseen capital expenditure;
- (18) breach of the terms and conditions in the relevant Government Grant of the portfolio properties, including unapproved uses of the portfolio properties, may give rise to the right on the part of the Government to terminate the Government Grant, re-enter the property and/or impose fines and penalties;

<b>LETTER TO THE UNITHOLDERS</b>
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- (19) the relative illiquidity of real estate investments;
- (20) considerable dependence on cash flows for the maintenance of, and improvements to, the portfolio properties;
- (21) increased operating costs, including real estate taxes;
- (22) any interest and encumbrance that cannot be or has not been revealed by a land search conducted at the Land Registry at the time of the search;
- (23) fire or other damage to the properties; and
- (24) acts of God, uninsurable losses and other factors.

Many of these factors may cause fluctuations in occupancy rates, rental rates or operating expenses, causing a materially negative effect on the value of real estate and income derived from real estate. The annual valuation of the New Properties will reflect such factors and as a result, such valuation may fluctuate significantly upwards or downwards. The capital value of Fortune REIT's real estate assets may be significantly diminished in the event of a sudden downturn in real estate market prices or the economy in Hong Kong.

## **5.2 Risks relating to the Affected Tenancies**

The tenants of the Affected Tenancies are using the tenanted premises as Elderly Homes without the waiver from District Lands Office/TW&KT. The use of the relevant premises as Elderly Homes without waiver constitutes non-compliance of the relevant Government Grant. For risks associated with non-compliance / breach of the relevant Government Grant, please refer to Section 5.1 headed "**Risk Factors – Risks Attached to Investments in Real Estate and the New Properties**" in this Circular.

Under the Affected Tenancies, the relevant tenant shall forthwith cease to use the tenanted premises as Elderly Homes in the event the Government objects to such use, and shall indemnify the landlords, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited, against all actions, proceedings, demands and costs. Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited can terminate the Affected Tenancy if the waiver is not obtained or there is breach of the relevant Government Grant conditions by the tenant.

As Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited can terminate the Affected Tenancies, once the Affected Tenancies are terminated, the non-compliance of Government Grant will cease, and in such circumstances, there should be no real risk of re-entry by the Government.

However, waiver / tolerance fee and in addition, fines and penalties may be imposed by the Government for such unauthorized use and the Government may allow the continuance of such use upon payment of further waiver / tolerance fee. It is difficult to estimate the amount of such waiver / tolerance fee, fines and penalty, as it is entirely at the Government's discretion. Any such waiver / tolerance fee, fines and penalty will be, covered by the Deeds of Undertaking and Indemnity subject to the caps defined therein. Under the Deed of Undertaking and Indemnity to be entered into with the Recoup Vendor, the Recoup Vendor shall be liable for 85% of the indemnified amount under such Deed, however 20% of such indemnified amount (the "**Hollingshead Elderly Homes Indemnity Portion**") shall (taken together with the indemnified amounts payable under the

## LETTER TO THE UNITHOLDERS

Hollingshead Tax Indemnity Portion) be limited to a maximum amount equal to the purchase consideration (as adjusted, if applicable) payable to Hollingshead under the Hollingshead Share Purchase Agreement. In the event that such aggregate maximum cap is reached, the Recoup Vendor's ongoing liability shall be limited solely to 65% of such indemnified amount. Under the Deed of Undertaking and Indemnity to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for 15% of the indemnified amount under such Deed.

For further information regarding the Deeds of Undertaking and Indemnity, please see section 2.4.10 headed "**The Transaction and Acquisition Facilities – The Purchase Agreements – Deeds of Undertaking and Indemnity**" in this Circular.

Further, the Independent Property Valuers have taken into account the Affected Tenancies in arriving at the valuation of the Belvedere Garden Property. For further details, please see Appendix 4 of this Circular and in particular: (a) note 5 (under the valuation summary of the Belvedere Garden Property) in Knight Frank's valuation report; and (b) note 9 (under the valuation certificate of the Belvedere Garden Property) in Savills' valuation report.

### **5.3 Fortune REIT may be unable to renew leases, lease vacant space or re-lease space in the New Properties as leases expire**

As at the Latest Practicable Date, leases representing approximately 9.8%, 40.4%, 32.4% and 17.4% of the total Gross Rental Income of the Belvedere Garden Property were scheduled to expire in 2011, 2012, 2013 and 2014 respectively, and leases representing approximately 40.0%, 21.1%, 18.1% and 20.8% of the total Gross Rental Income of the Provident Centre Property were scheduled to expire in 2011, 2012, 2013 and 2014 respectively. The Manager cannot assure Unitholders that leases will be renewed or that the New Properties will be re-leased at rental rates equal to or above the current average rental rates.

### **5.4 Failure by the Vendors to fulfil their obligations under the Purchase Agreements, the Deeds of Tax Covenant or the Deeds of Undertaking and Indemnity may have a material adverse effect on Fortune REIT's operations**

Under the Purchase Agreements, the Deeds of Tax Covenant and the Deeds of Undertaking and Indemnity, the relevant Vendors are subject to certain obligations in favour of the Trustee which will continue after Completion, including the following obligations (being the "**Continuing Obligations**"):

- (1) to pay amounts that may be due to the Trustee pursuant to the adjustment mechanisms stated in the Share Purchase Agreements;
- (2) to compensate the Trustee in the event of any breach of the representations and warranties made by the relevant Vendor under the Purchase Agreements;
- (3) to indemnify and compensate Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited against potential fees and penalties in connection with the use of any part of Belvedere Garden Property Phase II as Elderly Homes for the elderly and any termination costs in connection with the Affected Tenancies; and
- (4) to indemnify the Trustee for certain tax liabilities as described in the Deed of Tax Covenant.

## LETTER TO THE UNITHOLDERS

For a further description of the Continuing Obligations, please see section 2.4 headed “**The Transaction and Acquisition Facilities – The Purchase Agreements**” of this Circular. Failure by any Vendor to fulfil any of the Continuing Obligations may have a material adverse effect on Fortune REIT’s operations.

### **5.5 Fortune REIT may have to raise further equity and/or debt to fund additional tax required in connection with the Economic Benefit Sharing Arrangement**

Although pursuant to each Deed of Tax Covenant, each of the relevant Vendors will covenant to indemnify the Trustee in respect of potential liability for taxation that may not arise but for the Economic Benefit Sharing Arrangement or additional liability for taxation arising as a result of any taxation authority disregarding (wholly or partly) the Economic Benefit Sharing Arrangement, Fortune REIT may suffer from potential tax liability in connection with the Economic Benefit Sharing Arrangement in respect of liability for taxation to which Quebostar is subject, if:

- (1) the total amount of such tax liability suffered by Fortune REIT is of such an amount that the indemnified amounts payable under the Hollingshead Tax Indemnity Portion (taken together with the indemnified amounts payable under the Hollingshead Elderly Homes Indemnity Portion) exceeds the Hollingshead Consideration; and
- (2) the Recoup Vendor, the CK Minority Shareholder and together with their guarantors, HWL and Cheung Kong, fail to perform their obligations under the Deeds of Tax Covenant or upon the expiration of the limitation period for any claims under the Deeds of Tax Covenant.

In such circumstances, Fortune REIT may be required to pay additional tax which would either be funded by internal resources or through further debt or equity raising. There is no assurance that Fortune REIT will be able to raise additional equity or debt, should that become necessary, on terms acceptable to it or at all.

### **5.6 Additional Risks**

For further discussion of the risks associated with the Properties, please refer to the section headed “**Risk Factors — Risks Associated with the Properties**” in the Introduction Listing Document.

## **6. CONNECTED PARTY TRANSACTIONS AS A RESULT OF THE TRANSACTION**

In connection with or following the Transaction, the Manager, the Trustee and/or the New Property Companies have entered or will enter into a number of transactions with certain Connected Persons of Fortune REIT. These transactions include the following:

### **6.1 Purchase Agreements**

The Trustee entered into the Master Share Purchase Agreement with the Recoup Vendor and HWL (as guarantor) for the sale and purchase of the Target Company Shares on 28 December 2011. The Trustee also entered into the CK Share Purchase Agreement with the CK Minority Shareholder and Cheung Kong (as guarantor) for the Sale and Purchase of the CK Minority Shareholder Shares on 28 December 2011. The Trustee entered into the Belvedere Garden (Remaining Portion) Asset Purchase Agreement with the Belvedere Garden (Remaining Portion) Vendor for the sale and purchase of the Belvedere Garden (Remaining Portion) Property on 28 December 2011. The Trustee also entered into the

## LETTER TO THE UNITHOLDERS

Provident Centre Asset Purchase Agreement with the Provident Centre Vendor for the sale and purchase of the Provident Centre Property on 28 December 2011. For further details of each Purchase Agreement, please refer to section 2.4 headed **“The Transaction and Acquisition Facilities — The Purchase Agreements”** in this Circular.

### 6.2 Deeds of Tax Covenant

The Recoup Vendor (along with HWL) and the CK Minority Shareholder (along with Cheung Kong), will each enter into a Deed of Tax Covenant in favour of the Trustee pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement respectively. For further details of the Deeds of Tax Covenant, please refer to section 2.4.9 headed **“The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Tax Covenant”** in this Circular.

### 6.3 Deeds of Undertaking and Indemnity

The Recoup Vendor (along with HWL) and the CK Minority Shareholder (along with Cheung Kong), will each enter into a Deed of Undertaking and Indemnity in favour of the Trustee, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement respectively. For further details of the Deeds of Undertaking and Indemnity, please refer to section 2.4.10 headed **“The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Undertaking and Indemnity”** in this Circular.

### 6.4 Deposits Deeds of Indemnity

The Belvedere Garden (Remaining Portion) Holding Company will enter into the Deposits Deeds of Indemnity in favour of the Belvedere Garden (Remaining Portion) Vendor pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement. Similarly, the Provident Centre Holding Company will enter into the Deposits Deeds of Indemnity in favour of the Provident Centre Vendor pursuant to the Provident Centre Asset Purchase Agreement. For further details of the Deposits Deeds of Indemnity, please refer to section 2.4.11 headed **“The Transaction and Acquisition Facilities – The Purchase Agreements – Deposits Deeds of Indemnity”** in this Circular.

### 6.5 Borrowings Assignment and Debt Transfer Deed

The Existing Vendor Loan Lenders will assign the Existing Vendor Loans to the Trustee, and HWPL will transfer the HWPL Receivable to the Trustee at Completion. For details of the Borrowings Assignment and Debt Transfer Deed, please refer to section 2.4.12 headed **“The Transaction and Acquisition Facilities — The Purchase Agreements — Borrowings Assignment and Debt Transfer Deed”** in this Circular.

### 6.6 Deeds of Ratification and Accession

Each of the Belvedere Garden Holding Companies, the Provident Centre Holding Company, the Trustee, the Manager and the Property Manager will enter into a Deed of Ratification and Accession at Completion. For details of the Deeds of Ratification and Accession, please refer to section 2.4.14 headed **“The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Ratification and Accession”** in this Circular.

## 6.7 Pre-existing Agreements in respect of the New Properties

Certain New Property Companies have entered into agreements with the CKH Group, the Manager Group and the HSBC Group (each as defined herein) in relation to the New Properties, that will continue to subsist after Completion. These agreements comprise:

### 6.7.1 Belvedere Garden (Phase I) DMC and Belvedere Garden (Phase III) Deed

In Hong Kong, the relationship between the co-owners of a property is governed by a document called a deed of mutual covenant (or an instrument of a similar nature), which is an agreement between the co-owners to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building's effective maintenance and management. Certain Belvedere Garden Holding Companies, as the owners of the relevant portions of the Belvedere Garden Property, will be bound by the Belvedere Garden (Phase I) DMC and the Belvedere Garden (Phase III) Deed as described in section 2 of Appendix 8 headed "**Summary of Government Grants and Deeds of Mutual Covenant**" to this Circular.

Cayley Property Management Limited, a member of the CKH Group, is a party to the Belvedere Garden (Phase I) DMC as the DMC manager of Belvedere Garden Development Phase I. Additionally, Cayley Property Management Limited is a party to the Belvedere Garden Phase III Deed as the sub-agent for the management of common areas and common services exclusively serving the commercial units of Belvedere Garden Development Phase III. Further details regarding the responsibilities of Cayley Property Management Limited are described in section 2 of Appendix 8 headed "**Summary of Government Grants and Deeds of Mutual Covenant**" to this Circular. Upon Completion, Fortune REIT will also be a party to the Belvedere Garden (Phase I) DMC and Belvedere Garden (Phase III) Deed through its acquisition and ownership of the relevant Belvedere Garden Holding Companies.

### 6.7.2 Tenancy and Licence Agreements with the CKH Group, the Manager Group and the HSBC Group

The Belvedere Garden (Substantial Portion) Holding Companies and the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor (as the case may be) under the Asset Purchase Agreements have entered into various tenancy and licence agreements with: (a) members of the CKH Group and the Manager Group (being the "**Related Tenancy and Licence Agreements**"); and (b) the HSBC Group (together with the Related Tenancy and Licence Agreements, the "**Connected Persons Tenancy and Licence Agreements**"), in respect of the New Properties, which will continue to subsist post-Completion. The Manager believes that the Connected Persons Tenancy and Licence Agreements were made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and the Unitholders.



## 7. 2011 CONTINUING CONNECTED PARTY TRANSACTIONS

### 7.1 Connected Persons of Fortune REIT

The Fortune REIT Group has entered or will enter into continuing transactions (which will constitute continuing connected party transactions of Fortune REIT within the meaning of the REIT Code) with the following Connected Persons:

#### 7.1.1 CKH Group

For the purpose of the REIT Code, Cheung Kong is a Significant Holder<sup>53</sup> (that is, a holder of 10% or more of the outstanding Units) of Fortune REIT, and is therefore a connected person of Fortune REIT under paragraph 8.1(d) of the REIT Code.

Any person who is connected to Cheung Kong as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a connected person of Fortune REIT, and these persons include: (i) any director, senior executive or officer of Cheung Kong; (ii) any associate (as defined in the REIT Code) of Cheung Kong or of any director, senior executive or officer of Cheung Kong; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of Cheung Kong (collectively, and together with Cheung Kong, the “**CKH Group**”).

#### 7.1.2 Manager Group

The Manager is a connected person of Fortune REIT under paragraph 8.1(a) of the REIT Code.

Any person who is connected to the Manager as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a connected person of Fortune REIT, and these persons include: (i) any director, senior executive or officer of the Manager; (ii) any associate (as defined in the REIT Code) of any director, senior executive or officer of the Manager; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of the Manager (collectively, and together with the Manager, the “**Manager Group**”).

#### 7.1.3 Trustee Connected Persons

The Trustee and companies within the same group of, or otherwise “**associated**” with, the Trustee are each also within the definition of a connected person in the REIT Code (the “**Trustee Connected Persons**”). As a result, the list of Connected Persons of Fortune REIT will include HSBC Holdings plc., and other members of its group (including The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited and their respective subsidiaries) (the “**HSBC Group**”) because the Trustee is an indirect wholly-owned subsidiary of HSBC Holdings plc.

### 7.2 Existing Waivers in respect of Chapter 8 of the REIT Code

#### 7.2.1 Continuing Transactions with the CKH Group and/or the Manager Group

In 2010, the SFC had granted a waiver (being the “**Existing CKH/Manager CPT Waiver**”), subject to certain terms and conditions, from strict compliance with the disclosure and unitholders’ approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions (being the “**Existing**”).

<sup>53</sup> “**Significant Holder**” has the meaning ascribed to this term in the REIT Code.



## LETTER TO THE UNITHOLDERS

**Continuing Connected Party Transactions**”) between the Fortune REIT Group on the one hand, and the CKH Group or the Manager Group (as the case may be) on the other hand. For additional information regarding the Existing CKH/Manager CPT Waiver, please see section 17.2.1 of the Introduction Listing Document.

### 7.2.2 Continuing Transactions with the Trustee Connected Persons

In 2010, the SFC also granted a waiver (being the **“Existing Trustee CPT Waiver”**), subject to certain terms and conditions, from strict compliance with the disclosure and unitholder’s approval requirements under Chapter 8 of the REIT Code, in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand, and the Trustee Connected Persons on the other hand. As at the date of this Circular, such waiver remains in place. For further details of the waiver and the conditions that apply to it, please see section 17.2.2 of the Introduction Listing Document.

### 7.3 Reasons for New Waiver Request in respect of Chapter 8 of the REIT Code

If the Acquisition is completed, and assuming that various transactions and arrangements in relation to the New Properties will continue to be conducted with the CKH Group, the Manager Group and/or the Trustee Connected Persons, more continuing connected party transactions will arise.

In respect of the resulting continuing transactions with the CKH Group and/or Manager Group, the nature of such transactions will be the same as the Existing Continuing Connected Party Transactions in respect of which the Existing CKH/Manager CPT Waiver was granted. The Acquisition will accordingly increase the scale of the continuing connected party transactions with the CKH Group and/or the Manager Group, beyond the annual limits specified in the Existing CKH/Manager CPT Waiver.

As is the case for the Existing Continuing Connected Party Transactions, the Manager considers that it will be unduly burdensome and not in the interests of the Unitholders, for Fortune REIT to be subject to strict compliance with the requirements under Chapter 8 of the REIT Code with respect to such transactions in relation to the New Properties, on each and every occasion when they arise.

Accordingly, the Manager would like to take the opportunity of the EGM for Unitholders to approve a waiver in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand and the CKH Group and/or the Manager Group on the other hand, as described below in section 7.4 headed **“2011 Continuing Connected Party Transactions – 2011 Continuing Connected Party Transactions”** of this Circular (being the 2011 Continuing Connected Party Transactions). The Manager proposes a 2011 Continuing Connected Party Transactions waiver package (being the 2011 CKH/Manager CPT Waiver) that: (a) takes into account the new and/or additional continuing connected party transactions that will arise as a result of the Acquisition; and (b) replaces the Existing CKH/Manager CPT Waiver so that the three-year waiver duration can commence afresh.

The proposed 2011 CKH/Manager CPT Waiver is subject to Completion and the approval of the SFC. In the event that the EGM Resolution is not approved by the independent Unitholders, the Existing CKH/Manager CPT Waiver will continue to apply for the remainder of its duration.

## LETTER TO THE UNITHOLDERS

For completeness, in respect of the resulting continuing transactions with the Trustee Connected Persons, the nature of such transactions will be the same as the transactions in respect of which the Existing Trustee CPT Waiver was granted. However, as the Existing Trustee CPT Waiver is not subject to an annual cap or time limitation, no new waiver packages in respect of the subject transactions are required to be proposed to Unitholders.

### 7.4 2011 Continuing Connected Party Transactions

The 2011 Continuing Connected Party Transactions are connected party transactions entered into or to be entered into between the Fortune REIT Group on the one hand, and the CKH Group and/or the Manager Group (as the case may be) on the other hand, which may be categorised as being revenue or expenditure in nature.

#### 7.4.1 Revenue Transactions

##### *(1) Leasing/Licensing Transactions*

As part of the Fortune REIT Group's ordinary and usual course of business, each Property Companies which is the direct owner of a property, is either already a party to, or may from time to time enter into, leases or licences with members of the CKH Group (the "CKH Group Leases/Licences") or members of the Manager Group (the "Manager Group Leases/Licences" and together with the CKH Group Lease/Licences, the "CKH/Manager Group Leases/Licences") in respect of its properties.

All the CKH/Manager Group Leases/Licences subsisting are on normal arm's length commercial terms and at market levels.

Details of the CKH/Manager Group Leases/Licences in respect of the New Properties (being the Related Tenancy and Licence Agreements) are set out in Appendix 7 headed "Related Tenancy and Licence Agreements" to this Circular. Details of the CKH/Manager Group Leases/Licences in respect of the Existing Properties are set out in Fortune REIT's latest Annual Report.

#### 7.4.2 Expenditure Transactions

In addition, there are various categories of continuing connected party transactions with members of the CKH Group which have been entered into relating to property management, estate management and other operational transactions in respect of Fortune REIT and its assets and operations. This has resulted and may in the future result in expenditures being paid by Fortune REIT to the CKH Group, comprising the following:

##### *(1) Property Management Transactions*

Under the Property Management Agreement dated 7 July 2003 entered into between the Trustee, the Manager and the Property Manager, the Manager has delegated the property and lease management and marketing functions in respect of Fortune REIT's real estate assets to the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong.

Pursuant to a property management extension letter from the Property Manager to the Trustee and the Manager dated 1 August 2008, the Property Management Agreement has been extended for a further term of five years to 11

## LETTER TO THE UNITHOLDERS

August 2013. As noted in section 2.4.14 headed “**The Transaction and Acquisition Facilities — The Purchase Agreements — Deeds of Ratification and Accession**” in this Circular, the parties to the Purchase Agreements intend to extend the scope of the property management services so as to include the New Properties pursuant to the Deeds of Ratification and Accession.

Under the Property Management Agreement, the Property Manager is entitled to a fee of 3.0% per annum of the Gross Property Revenue for the provision of property and lease management services. In addition, the Property Manager is also entitled to commissions for the provision of marketing services, such commissions are derived at by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees paid. For further details regarding the Property Management Agreement, please refer to the section headed “**Material and Other Agreements Relating to Fortune REIT Property Management Agreement**” in the Introduction Listing Document.

### *(2) Third Party Services*

Under the Property Management Agreement, the Property Manager, as agent for the relevant Property Companies, has entered into, and will continue to enter into contracts with third-party service providers for the provision of, among other things, cleaning, maintenance, security, carpark management and other ancillary services in respect of the properties held by Fortune REIT. Some of these third party service providers are and may be members of the CKH Group. In consideration for such services, Fortune REIT will pay fees to such contractors. The anticipated amounts of these fees will form part of the 2011 Continuing Connected Party Transactions.

It is the current intention of the parties that after Completion, the Property Manager, as agent for the New Property Companies, will enter into contracts with such third party service providers which may include members of the CKH Group in respect of the provision of property management-related services in connection with the New Properties. Those third party service providers may include those companies who have been providing such services in respect of the New Properties.

### *(3) Deeds of Mutual Covenant*

Each Property Company will, where applicable, be bound by the terms of the deed of mutual covenant applicable to the property owned by it. The deed of mutual covenant binds the manager under the deed of mutual covenant (the DMC manager) and all the owners of a development and their successors-in-title, irrespective of whether they are original parties to the deed of mutual covenant. Some of the DMC managers in respect of properties held by Fortune REIT are members of the CKH Group. These include the DMC managers of Ma On Shan Plaza, Fortune Metropolis, Nob Hill Square, Centre de Laguna, Hampton Loft, Lido Avenue, Rhine Avenue and one of the DMC managers of the Belvedere Garden Property mentioned below. Further, there may also be situations arising where one or more members of the CKH Group may own other parts of the development of which the property owned by Fortune REIT forms part, and therefore technically the deed of mutual covenant constitutes a contract between them.

## LETTER TO THE UNITHOLDERS

As noted in section 6.7.1 headed “**Connected Party Transactions as a result of the Transaction — Pre-existing Agreements in respect of the New Properties — Belvedere Garden (Phase I) DMC and Belvedere Garden (Phase III) Deed**” of this Circular, Cayley Property Management Limited, a member of the CKH Group, is a party to the Belvedere Garden (Phase I) DMC as the DMC manager of Belvedere Garden Development Phase I. Additionally, Cayley Property Management Limited is a party to the Belvedere Garden Phase III Deed as the sub-agent for the management of common areas and common services exclusively serving the commercial units of Belvedere Garden Development Phase III. Upon Completion, the Fortune REIT Group will be also a party to the Belvedere Garden (Phase I) DMC and Belvedere Garden (Phase III) Deed through its acquisition and ownership of the relevant Belvedere Garden Holding Companies.

#### *(4) Back-Office Support Services*

Some members of the CKH Group currently provide back-office support services to the Fortune REIT Group. Such support takes the form of full-time or part-time secondment of staff, or may be in other forms such as service-level arrangements for back-office support services such as accounting and corporate secretarial services with charge-back arrangements on arm’s length normal commercial terms.

### **7.5 Request for 2011 Continuing Connected Party Transactions Waiver**

For the above reasons, the Manager has requested that the SFC grant a waiver (the “**2011 CKH/Manager CPT Waiver**”) to Fortune REIT from strict compliance with the disclosure and unitholders’ approval requirements under Chapter 8 of the REIT Code, in respect of the 2011 Continuing Connected Party Transactions, subject to and conditional upon Completion taking place, and subject to (among other things) the conditions summarised in section 7.8 headed “**2011 Continuing Connected Party Transactions — Review, Disclosure and other Control Measures**” below.

### **7.6 Extensions or amendments**

The 2011 CKH/Manager CPT Waiver applied for is in respect of a period which commences as from Completion Date and continues until 31 December 2014 (being the “**Initial CPT Waiver Period**”).

The 2011 CKH/Manager CPT Waiver may be extended beyond the Initial CPT Waiver Period (or any extension thereof), and/or the conditions of the 2011 CKH/Manager CPT Waiver may be modified from time to time, provided that:

- (1) the approval of Unitholders other than those who have a material interest in the relevant transactions, within the meaning of paragraph 8.11 of the REIT Code (being the independent Unitholders) is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (2) disclosure of details of the proposed extension and/or amendment of the 2011 CKH/Manager CPT Waiver, as the case may be, shall be made by way of an announcement by the Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and

**LETTER TO THE UNITHOLDERS**

- (3) any extension of the period of the 2011 CKH/Manager CPT Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Fortune REIT after the date on which the approval referred to in (1) above becomes effective.

**7.7 Annual Limits**

The 2011 CKH/Manager CPT Waiver will apply to the 2011 Continuing Connected Party Transactions as categorised, and up to the annual monetary limits stated in the table below (the “**New Annual Caps**”):

Categories of 2011 Continuing Connected Party Transactions	Connected person	Proposed annual limits under the 2011 CKH/Manager CPT Waiver		
		For the financial year ending 31 December 2012	For the financial year ending 31 December 2013	For the financial year ending 31 December 2014
		(HK\$'000)	(HK\$'000)	(HK\$'000)
<b>I. Revenue</b>				
Leasing/ licensing transactions . . .	CKH Group	275,000	344,000	430,000
Leasing/ licensing transactions . . .	Manager Group	11,500	13,200	15,200
<b>II. Expenditure</b>				
Property management arrangements, third party services and other operational transactions . . . . .	CKH Group	101,000	136,000	183,000

**(1) In respect of CKH Group Leases/Licences**

The proposed annual caps for the year ending 31 December 2012 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition (i.e., including the Related Tenancy and Licence Agreements), with an appropriate buffer for contingencies such as changes in rental or other market conditions.

The increase of the annual cap for the financial year ending 31 December 2012 from HK\$202 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$275 million (pursuant to the 2011 CKH/Manager CPT Waiver) is mainly due to the new CKH Group Leases/Licences to be taken up at the Belvedere Garden Property and the Provident Centre Property upon the completion of the Acquisition. In addition, the increment has also taken into account the inflation, together with an appropriate buffer for contingencies (e.g. changes in rental or other market conditions) and possible additional leasing or licensing transactions with CKH Group tenants at the Existing Properties. The proposed annual caps for each of the financial years ending 31 December 2013 and 2014 have been determined by applying a 25% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 25% increment factor has been applied after taking into account the inflation, with an appropriate buffer for contingencies, possible increase in the number of premises under the CKH Group Leases/Licences during the Initial CPT Waiver Period.

**(2) In respect of the Manager Group Leases/Licences**

The Manager Group does not currently have any lease/license of premises at the portfolio of properties of Fortune REIT. However, it is possible that such leases/licenses may be entered into at some time during the proposed waiver period including the Initial CPT Waiver Period.

The proposed annual caps have been determined after taking into account the inflation, together with an appropriate buffer for contingencies, for instance, the change in rental or other market conditions and possible leasing or licensing transactions with the Manager Group during the relevant period. Although there has been no previous leasing/licensing transaction with the Manager Group, the proposed annual caps could be substantially utilized once transactions are entered into with the Manager Group.

**(3) In respect of property management arrangements, third party services and other operational transactions**

The proposed annual caps for the financial year ending 31 December 2012 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition, with an appropriate buffer for contingencies.

The increase of the annual cap for the financial year ending 31 December 2012 from HK\$62 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$101 million (pursuant to the 2011 CKH/Manager CPT Waiver) is mainly taking into account the new operating expenses from the Belvedere Garden Property and the Provident Centre Property upon completion of the Acquisition. The increment is also attributable to account for inflation, possible increase in costs and wages, together with an appropriate buffer for contingencies, for instance, possible additional marketing services fees as a result of additional leasing activities, additional property management related services and additional landlord's fitting out provisions, or building facilities maintenance and improvement works being carried out by the CKH Group during the relevant period.

The proposed annual caps for each of the financial years ending 31 December 2013 and 2014 have been determined by applying a 35% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 35% increment factor has been applied after taking into account: (i) the general economic environment in Hong Kong including the inflation, possible increase in costs and wages, and specifically, the anticipated increase in management expenses; and (ii) the resulting anticipated increase in the property management fees and marketing service fees payable by Fortune REIT to the Property Manager, during the Initial CPT Waiver Period.

## **7.8 Review, Disclosure and other Control Measures**

The 2011 CKH/Manager CPT Waiver stipulates the following additional conditions in relation to the 2011 Continuing Connected Party Transactions:

### **7.8.1 Disclosure in Interim and Annual Reports**

Details of the relevant continuing connected party transactions shall be disclosed in Fortune REIT's interim and annual reports, as required under paragraph 8.14 of the REIT Code.

### **7.8.2 Auditors' Review Procedures**

In respect of each relevant financial year, the Manager will engage and agree with the auditors of Fortune REIT to perform certain review procedures on the 2011 Continuing Connected Party Transactions. The auditors will then report to the Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such 2011 Continuing Connected Party Transactions:

- (a) have received the approval of the board of directors of the Manager (including its independent non-executive Directors);
- (b) are in accordance with the pricing policies of Fortune REIT where applicable;
- (c) have been entered into in accordance with the terms of the agreements (if any) governing the transactions; and
- (d) the total value in respect of which has not exceeded the respective annual cap amount (where applicable) as set out above.

### **7.8.3 Review by the Independent Non-Executive Directors of the Manager**

The independent non-executive Directors of the Manager shall review the 2011 Continuing Connected Party Transactions annually, and confirm in Fortune REIT's annual report for the relevant financial year that such transactions have been entered into:

- (a) in the ordinary and usual course of business of Fortune REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Fortune REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the independent Unitholders, as well as the Unitholders as a whole.



#### **7.8.4 Auditors' Access to Books and Records**

The Manager shall allow, and shall procure the counterparty to the relevant continuing connected party transactions to allow, the auditors of Fortune REIT sufficient access to their records for the purpose of reporting on the transactions.

#### **7.8.5 Notification to the SFC**

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in sections 7.8.2 and 7.8.3, respectively.

#### **7.8.6 Subsequent Increases in Annual Caps with Independent Unitholders' Approval**

If necessary, for example, where there are further asset acquisitions by Fortune REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the Manager may, from time to time in the future, seek to increase one or more of the annual cap amounts referred to above, provided that:

- (a) the approval of independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) disclosure of details of the proposal to increase the relevant cap amount(s) shall be made by way of an announcement by the Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) the requirements referred to in sections 7.8.1 to 7.8.5 shall continue to apply to the relevant transactions, save that the relevant increased annual cap amount(s) shall apply.

#### **7.9 Paragraph 8.14 of the REIT Code**

The Manager shall comply with all requirements under paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant connected party transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders' approval.

Details of the connected party transactions will be disclosed in the interim and annual report of Fortune REIT in the relevant financial year as required under paragraph 8.14 of the REIT Code. The independent non-executive Directors will review the connected party transactions annually and confirm whether such transactions are carried out in the ordinary and usual course of business of Fortune REIT based on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Unitholders.



### **7.10 Opinion of the Board**

The Board (including all the independent non-executive Directors) confirms that:

- (1) in its opinion, the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of the independent Unitholders, as well as the Unitholders as a whole;
- (2) in its opinion, each of the 2011 Continuing Connected Party Transactions subsisting as at the Completion Date has been entered into: (i) in the ordinary and usual course of business of Fortune REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of the independent Unitholders, as well as the Unitholders as a whole; and
- (3) in its opinion, that each of the 2011 Continuing Connected Party Transactions to be entered into after Completion shall be: (i) in the ordinary and usual course of business of Fortune REIT; and (ii) on terms which are normal commercial terms and at arm's length and are fair and reasonable and in the interests of the independent Unitholders, as well as the Unitholders as a whole.

### **7.11 Opinion of the Independent Financial Advisers**

The Independent Financial Advisers have confirmed that they are of the view that: (1) the 2011 CKH/Manager CPT Waiver and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of Fortune REIT and the independent Unitholders, as well as the Unitholders as a whole; and (2) the 2011 Continuing Connected Party Transactions are entered into: (a) in the ordinary and usual course of business of Fortune REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in, and not prejudicial to, the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole. Details of the Independent Financial Advisers' opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "**Letter from Independent Financial Advisers**" in this Circular.

### **7.12 Opinion of the Independent Property Valuers**

Knight Frank, an Independent Property Valuer appointed by the Trustee and Fortune REIT's current principal valuer have confirmed that the rentals of the subject lettings in respect of the New Properties which form part of the 2011 Continuing Connected Party Transactions were at or above market levels as of their respective tenancy agreement dates and other commercial terms in the tenancies such as tenure, rental deposits and break clauses are on normal commercial terms.

Also, as disclosed in the Introduction Listing Document, Savills, Fortune REIT's then principal valuer, confirmed that the rental/license fees in respect of the CKH Group Leases/Licences and the Manager Group Leases/Licences of the Existing Properties, which form part of the 2011 Continuing Connected Party Transactions, were at market levels as at their respective agreement dates, and that the other commercial terms in the lease or licences such as tenure, rental deposits and break clauses were on normal commercial terms. In accordance with the Existing CKH/Manager CPT Waiver, Fortune REIT also obtained an independent valuation from the incumbent principal valuer being Savills or Knight Frank for other subject lettings in respect of the Existing Properties entered into after the

## LETTER TO THE UNITHOLDERS

Introduction Listing Document (with the exception of subject lettings entered into on standard rates, which did not require such confirmation under the conditions of the Existing CKH/Manager CPT Waiver).

### 8. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED

#### 8.1 Transaction

Clause 16.2.1 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including conditions of any waiver or exemption from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under paragraph 8.1 of the REIT Code, Connected Persons of Fortune REIT include, among others, a Significant Holder (that is, a holder of 10% or more of the outstanding Units) and associated companies. Cheung Kong owns more than 10% of the Units and therefore is a Significant Holder of Fortune REIT (for further details in respect of the Unit holdings of Cheung Kong, please refer to Appendix 10 headed "**General Information**" to this Circular). The CK Minority Shareholder (being one of the Minority Shareholders) is a member of the CKH Group. HWL is an "associated company" of Cheung Kong within the meaning of the REIT Code. Each of the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor is a wholly-owned subsidiary of HWL. As a result, HWL, the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor, the Provident Centre Vendor and the CK Minority Shareholder are each a Connected Person of Fortune REIT within the meaning of the REIT Code. Accordingly, each of the following constitutes a connected party transaction of Fortune REIT under paragraph 8.5 of the REIT Code:

- (1) the Acquisition and the consummation of the transactions contemplated under the Purchase Agreements (other than the Hollingshead Share Purchase Agreement);
- (2) the entering into and performance of the Deeds of Tax Covenant;
- (3) the entering into and performance of the Deeds of Undertaking and Indemnity;
- (4) the entering into and performance of the Deposits Deeds of Indemnity;
- (5) the entering into and performance of the Borrowings Assignment and Debt Transfer Deed; and
- (6) the entering into and performance of the Deeds of Ratification and Accession.

As the Total Consideration or value of the Transaction exceeds 5.0% of the latest net asset value of Fortune REIT, as disclosed in its latest published audited accounts, and adjusted for any subsequent transaction since their publication, pursuant to paragraph 8.11 of the REIT Code and the Trust Deed, each of the above transactions will require independent Unitholders' approval by way of an Ordinary Resolution at the EGM.

In addition, as the Total Consideration represents 30.7% of the total market capitalisation of Fortune REIT, based on the average closing price of Fortune REIT in the Hong Kong Stock Exchange for the five Business Days immediately preceding 23 December 2011. The Transaction also constitutes a major acquisition by Fortune REIT for the purpose of the REIT Code.

## **8.2 2011 Continuing Connected Party Transactions**

Details of the 2011 Continuing Connected Party Transactions are set out in section 7 headed “**2011 Continuing Connected Party Transactions**” in this Circular. The Directors propose to adopt a new waiver package for the 2011 Continuing Connected Party Transactions (being the 2011 CKH/Manager CPT Waiver) that will accommodate the increase in size and the number of varieties of the continuing connected party transactions of Fortune REIT following the Acquisition. Fortune REIT will obtain the approval of independent Unitholders for the 2011 Continuing Connected Party Transactions.

## **8.3 Ordinary Resolution**

The Manager takes the view that: (a) the Transaction; (b) the takeover of the Related Tenancy and Licence Agreements; and (c) the 2011 Continuing Connected Party Transactions are interdependent and linked to each other and part and parcel of a significant proposal, as (b) and (c) only arise from the consummation of the Transaction and will not be required but for the entering into of the agreements underlying the Transaction.

Please refer to the EGM Notice for the proposed EGM Resolution in relation to the Transaction and the 2011 Continuing Connected Party Transactions. As soon as practicable after the EGM, the Manager will issue an announcement setting out the results of the EGM, including whether the proposed EGM Resolution has been passed.

## **8.4 Restrictions on Voting**

Paragraph 9.9(f) of the REIT Code provides that where a Unitholder has a material interest in the resolution tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under paragraph 2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the resolution tabled for approval at a general meeting of the Unitholders, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Members of the CKH Group, the Manager Group and the HWL Group are parties to one or more of the Transactions, the Related Tenancy and Licence Agreements and the 2011 Continuing Connected Party Transactions, and as such, have a material interest in the relevant EGM Resolution. The Acquisition, if completed, will increase the scale of the continuing connected party transactions with such persons.

Pursuant to the REIT Code and the Trust Deed, Cheung Kong has agreed that it will abstain, and will procure that each member of the CKH Group and their respective associates will abstain, from voting on the EGM Resolution.

Similarly, HWL has undertaken that it will abstain, and will procure that each member of the HWL Group and their respective associates will abstain, from voting on the EGM Resolution.

Also, ARA (being the holding company of the Manager) has undertaken that it will abstain, and will procure that each member of the Manager Group and their respective associates will abstain, from voting on the EGM Resolution.

## LETTER TO THE UNITHOLDERS

To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that save as disclosed above, no other Unitholders are required to abstain from voting at the EGM in respect of the EGM Resolution.

### **8.5 Manager has Discretion**

For the avoidance of doubt, Unitholders should note that, given the Acquisition is dependent on the satisfaction of certain Conditions, including the obtaining of financing for the Acquisition on such terms as are satisfactory to the Trustee, the Trustee may not proceed with the Acquisition if any of the Conditions shall not have been fulfilled (or waived) prior to the Long Stop Date.

### **8.6 Waiver applications and submissions made to the SFC**

#### **8.6.1 Waiver application in respect of Chapter 8 of the REIT Code in relation to the 2011 Continuing Connected Party Transactions**

The Manager has requested that the SFC grant a waiver to Fortune REIT from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the 2011 Continuing Connected Party Transactions, subject to Completion taking place, and subject to various Conditions. For further details regarding this waiver application, please refer to section 7.5 headed "2011 Continuing Connected Party Transactions — Request for 2011 Continuing Connected Party Transactions Waiver" of this Circular.

#### **8.6.2 Submission in respect of four layers of special purpose vehicles in respect of the Belvedere Garden (Substantial Portion) Property**

For the purposes of acquiring the Belvedere Garden (Substantial Portion) Property in the manner that it has historically been held, and for facilitating future group reorganisation and disposal of property interests through ultimate or intermediate holding companies to achieve savings in transaction costs, submission has been made to the SFC for the use of four layers of special purpose vehicles by Fortune REIT in respect of the Belvedere Garden (Substantial Portion) Property post-Completion and this has been allowed by the SFC, subject to the condition that there will be no change to the maximum number of layers of special purpose vehicles used by Fortune REIT without further approval from the SFC.

#### **8.6.3 Submission in respect of "majority ownership and control"**

Based on the relevant Deeds of Mutual Covenant (as summarised in Appendix 8), the Acquisition will involve: (a) in respect of the Belvedere Garden Development: (i) 100% of the entire commercial area of Belvedere Garden Development Phase I and Belvedere Garden Development Phase III; (ii) 96.3%<sup>54</sup> of the undivided shares of the entire commercial area of Belvedere Garden Development Phase II; (iii) 100% of the motor cycle parking spaces of Belvedere Garden Development Phase I; (iv) 100% of the common areas of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III; and (v) 23.5% of the car parking spaces of Belvedere Garden Development Phase I, 9.7% of the car parking spaces of Belvedere Garden

<sup>54</sup> The remaining 3.7% of the undivided shares of the commercial area of Belvedere Garden Development Phase II is owned by The Financial Secretary Incorporated of Hong Kong and relates to a shop on the ground floor. For further details of such area please see section 2.5 of Appendix 8 of this Circular headed "Summary of Government Grants and Deeds of Mutual Covenant" of this Circular.

## LETTER TO THE UNITHOLDERS

Development Phase II and 16.4% of the car parking spaces of Belvedere Garden Development Phase III (the “Subject Area”); and (b) 100% of the entire commercial area of the Provident Centre Development.

Based on information currently available to the Manager and to the best of its knowledge and belief, the Manager considers that subject to and with the benefit of the terms, covenants and conditions contained in the relevant Deed of Mutual Covenant, it will be able to:

- (a) manage and maintain the Belvedere Garden Property (other than the Subject Area) and the Provident Centre Property;
- (b) exercise the day-to-day management and operation of the Belvedere Garden Property (other than the Subject Area) and the Provident Centre Property, separate from other parts of the Belvedere Garden Development and the Provident Centre Development, respectively, and free from interference, control or restriction from other parties;
- (c) independently carry out asset enhancement work to the Belvedere Garden Property (other than the Subject Area) and the Provident Centre Property; and
- (d) exercise all rights as owner over the Belvedere Garden Property (other than the Subject Area) and the Provident Centre Property, e.g., to sell, mortgage, occupy, and lease out the units comprised therein without reference to or interference from other owners in Phases I, II and III of the Belvedere Garden Development and the Provident Centre Development, respectively.

Based on the foregoing, the Manager has submitted that upon Completion, Fortune REIT would satisfy the regulatory intent of having “majority ownership and control” of the New Properties (other than the Subject Area) under paragraph 7.7A of the REIT Code, and thereby meets such requirement.

In respect of the Subject Area, being the car parking spaces in Belvedere Garden Property, Fortune REIT will not have “majority ownership and control” under paragraph 7.7A of the REIT Code as applied by the SFC. The value of the Subject Area together with the value of similarly non-conforming areas within the Existing Properties represents approximately 0.45% of the aggregate valuation of the Properties.

### **9. IMPLICATIONS UNDER THE SINGAPORE LISTING MANUAL AND THE SINGAPORE PROPERTY FUNDS APPENDIX**

#### **9.1 Interested Person Transaction under Chapter 9 of the Singapore Listing Manual**

Under Chapter 9 of the Singapore Listing Manual, where Fortune REIT proposes to enter into a transaction with an Interested Person and the value of the transaction (either in itself or when aggregated with the value of other transactions, each of a value equal to or greater than S\$100,000, with the same Interested Person during the same financial year) is equal to or exceeds 5.0% of Fortune REIT’s latest audited net tangible assets (“NTA”), Unitholders’ approval is required in respect of the transaction.

Each of the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor is a wholly-owned subsidiary of HWL. The CK Minority Shareholder (being one of the Minority Shareholders) is a member of the CKH Group. Cheung Kong, through its subsidiaries, holds approximately 49.9% of HWL, and HWL is therefore an associate of Cheung Kong. As at the Latest Practicable Date, Cheung Kong is deemed to

## LETTER TO THE UNITHOLDERS

hold an aggregate indirect interest in 525,630,684 Units (comprising 31.3% of the existing Units), of which (i) 413,074,684 Units are held by Focus Eagle Investments Limited (a wholly-owned subsidiary of Cheung Kong) and (ii) 112,556,000 Units are held by Ballston Profits Limited (a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong). As Cheung Kong has an interest in more than 15% of all outstanding Units and HWL is an associate of Cheung Kong, Cheung Kong and HWL is considered an Interested Person of Fortune REIT for the purposes of Chapter 9 of the Singapore Listing Manual.

Based on the audited financial statements of Fortune REIT for the financial year ended 31 December 2010, the audited NAV/NTA was HK\$10,333.7 million as at 31 December 2010. Accordingly, if the value of a transaction which is proposed to be entered into by Fortune REIT with an Interested Person is, in the current financial year, either in itself or in aggregation with all other earlier transactions (each of a value equal to or greater than S\$100,000 or HK\$604,820 based on the exchange rate of S\$1 = HK\$6.0482 as at 3 January 2011<sup>55</sup>) entered into with the same Interested Person during the current financial year, equal to or in excess of HK\$516.7 million, such a transaction would have to be subjected to Unitholders' approval. Given the Total Consideration of HK\$1,900.0 million (subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar, as applicable, as at Completion) (which comprises 18.4% of the audited NAV/NTA of Fortune REIT as at 31 December 2010), the aggregate value of the Acquisition exceeds the said threshold. As such, the Acquisition is subject to Unitholders' approval under Chapter 9 of the Singapore Listing Manual.

### 9.2 Existing Interested Person Transactions

As at the Latest Practicable Date, Fortune REIT had entered into several Interested Person Transactions with certain entities within the CKH Group and the HWL Group during the course of the current financial year. The aggregate value of the existing Interested Person Transactions amounts to HK\$80.0 million (which comprises 0.77% of the audited NAV/NTA of Fortune REIT as at 31 December 2010).

For details of the existing Interested Person Transactions, please refer to Appendix 6 headed "Existing Interested Person Transactions" to this Circular.

### 9.3 Related Tenancy and Licence Agreements

As at the Latest Practicable Date, the Belvedere Garden (Substantial Portion) Holding Companies and the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor (as the case may be) under the Asset Purchase Agreements had entered into several Related Tenancy and Licence Agreements. The aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements is estimated at HK\$97.4 million (which comprises 0.94% of the audited NAV/NTA of Fortune REIT as at 31 December 2010).

For details of the Related Tenancy and Licence Agreements, please refer to Appendix 7 headed "Related Tenancy and Licence Agreements" to this Circular.

<sup>55</sup> Exchange rate obtained from Bloomberg.



#### **9.4 Interested Party Transaction under Paragraph 5 of the Singapore Property Funds Appendix**

Paragraph 5 of the Singapore Property Funds Appendix also imposes a requirement to obtain Unitholders' approval for an Interested Party Transaction by Fortune REIT whose value exceeds 5.0% of Fortune REIT's latest audited NAV.

As a person who holds, directly or indirectly, 15.0% or more of the nominal amount of Units or who in fact exercises control over Fortune REIT ("**2011 Controlling Unitholder**"), Cheung Kong is considered to be an Interested Party of Fortune REIT. HWL, as an associate of Cheung Kong, would also be considered to be an Interested Party of Fortune REIT. Based on the audited financial statements for the financial year ended 31 December 2010, the NAV of Fortune REIT was HK\$10,333.7 million as at 31 December 2010. Accordingly, if the value of a transaction which is proposed to be entered into by Fortune REIT with an Interested Party is equal to or greater than HK\$516.7 million, such a transaction would be subject to Unitholders' approval. Given the Total Consideration of HK\$1,900.0 million (subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar, as applicable, as at Completion) (which comprises 18.4 % of the NAV of Fortune REIT as at 31 December 2010), the aggregate value of the Acquisition exceeds the said threshold.

As such, the Acquisition is also subject to Unitholders' approval under Paragraph 5 of the Singapore Property Funds Appendix.

#### **9.5 Approval by Unitholders**

In approving the Transaction, Unitholders are deemed to have approved the Related Tenancy and Licence Agreements (as detailed in section 9.3 and Appendix 7 to this Circular) and the agreement to include the relevant New Properties as part of the properties to be managed by the Property Manager, upon Completion. These agreements are, therefore, not subject to Rules 905 and 906 of the Singapore Listing Manual (which require Fortune REIT to make an announcement or obtain the approval of Unitholders depending on the materiality of the Interested Person Transactions) insofar as there are no subsequent changes to the rental, rates and/or basis of the fees charged thereunder which will adversely affect Fortune REIT. Future renewal or extension of the agreements will be subject to Rules 905 and 906 of the Singapore Listing Manual.

#### **9.6 Restrictions on Voting**

Rule 919 of the Singapore Listing Manual prohibits related parties and their associates (as defined in the Singapore Listing Manual) from voting on a resolution, or accepting appointments as proxies unless specific instructions as to voting are given, in relation to a matter in respect of which such persons are interested in the EGM.

Given that Cheung Kong is a 2011 Controlling Unitholder, Cheung Kong has undertaken that it will abstain, and will procure that each member of the CKH Group to abstain, from voting on the EGM Resolution. In addition, Cheung Kong has undertaken that it will not, and will procure that each member of the CKH Group will not, accept appointments as proxies unless specific instructions as to voting are given. Similarly, HWL has undertaken that it will abstain, and will procure that each member of the HWL Group to abstain, from voting on the EGM Resolution. In addition, HWL has undertaken that it will not, and will procure that each member of the HWL Group will not, accept appointments as proxies unless specific instructions as to voting are given.

<b>LETTER TO THE UNITHOLDERS</b>
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## 9.7 Relative Figures Computed on the Basis set out in Rule 1006

The relative figures computed on the following bases set out in Rule 1006(a), 1006(b) and 1006 (c) of the Singapore Listing Manual are as follows:

- (1) the net profits attributable to the assets acquired, compared with Fortune REIT's net profits; and
- (2) the aggregate value of the consideration given, compared with Fortune REIT's market capitalisation.

<u>Comparison of:</u>	<u>New Properties</u>	<u>Fortune REIT</u>	<u>Relative figure (%)</u>
Profits (HK\$ million) . . . . .	79.3 <sup>(1)</sup>	615.3 <sup>(2)</sup>	12.9
Consideration against market capitalisation (HK\$ million) . . . . .	1,900.0	6,126.1 <sup>(3)</sup>	31.0

Notes:

- (1) Based on Net Property Income for the financial year ended 31 December 2010 of Target Company, the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property (before the Manager's Performance Fee).
- (2) Based on Net Property Income for the financial year ended 31 December 2010 of Fortune REIT (before the Manager's Performance Fee).
- (3) Based on HK\$3.645, the average closing unit price in Singapore of HK\$3.58 and Hong Kong HK\$3.71 as of the Latest Practicable Date.

The Manager is of the view that the Transaction is in the ordinary course of Fortune REIT's business and is therefore not subject to Chapter 10 of the Singapore Listing Manual.

## 10. RECOMMENDATIONS

### 10.1 Directors

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the proposed Transaction and the new 2011 Continuing Connected Party Transactions as described in this Circular, the Directors (including the independent non-executive Directors) consider that:

- (a) the Transaction is carried out at arm's length on normal commercial terms, in the ordinary and usual course of business of Fortune REIT and are fair and reasonable and in the interests of independent Unitholders, as well as the Unitholders as a whole; and
- (b) the 2011 CKH/Manager CPT Waiver and the New Annual Caps are fair and reasonable having regard to the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole; and the 2011 Continuing Connected Party Transactions are entered into: (i) in the ordinary and usual course of business of Fortune REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable and in, and not prejudicial to, the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole,



## LETTER TO THE UNITHOLDERS

and accordingly, recommend that the independent Unitholders vote at the EGM in favour of the EGM Resolution.

### 10.2 Independent Board Committee and Audit Committee

The Independent Board Committee (which comprises all three of the independent non-executive Directors of the Manager) has been established by the Board to advise the independent Unitholders on the Transaction and the new 2011 Continuing Connected Party Transactions. The Independent Financial Advisers have been appointed by the Manager and the Trustee to advise the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee as to whether the Transaction and the new 2011 Continuing Connected Party Transactions are fair and reasonable.

Your attention is drawn to the **“Letter from the Independent Board Committee and the Audit Committee”** set out in this Circular, which contains the Independent Board Committee’s and the Audit Committee’s recommendations to the independent Unitholders, and the **“Letter from the Independent Financial Advisers”** set out in this Circular, which contains among other things: (1) the Independent Financial Advisers’ advice to the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee; and (2) the principal factors taken into consideration by the Independent Financial Advisers, and assumptions and qualifications adopted by the Independent Financial Advisers in arriving at such opinion.

The Independent Board Committee and the Audit Committee recommend that the independent Unitholders vote at the EGM in favour of the EGM Resolution.

### 10.3 Independent Financial Advisers

CIMB Securities (HK) Limited (the **“HK Independent Financial Adviser”**) has been appointed as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code, and CIMB Bank Berhad, Singapore Branch (the **“Singapore Independent Financial Adviser”**) has been appointed as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual, to advise the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee on whether:

- (1) the Transaction is (a) on normal commercial terms and not prejudicial to Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 9 of the Singapore Listing Manual and (b) at arm’s length, on normal commercial terms and fair and reasonable and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 8 of the REIT Code; and
- (2) the 2011 CKH/Manager CPT Waiver and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole; and the 2011 Continuing Connected Party Transactions are entered into: (a) in the ordinary and usual course of business of Fortune REIT; and (b) on terms which are normal commercial terms at arm’s length and are fair and reasonable and in, and not prejudicial to, the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole.

Details of the Independent Financial Advisers’ opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the **“Letter from Independent Financial Advisers”** in this Circular.

#### 10.4 Trustee

The Independent Financial Advisers have been appointed by the Manager and the Trustee to advise the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee as to whether the Transaction and the 2011 Continuing Connected Party Transactions (and the 2011 CKH/Manager CPT Waiver and New Annual Caps in respect of such transactions) are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the **“Letter from the Independent Financial Advisers”** in this Circular. Knight Frank has been appointed by the Trustee and Savills has been appointed by the Manager to value the New Properties and to confirm that the tenancies of the New Properties are on normal commercial terms. Their opinions are set out in Appendix 4 headed **“Independent Property Valuers’ New Properties Valuation Reports”** to this Circular. Further, the Independent Board Committee and the Audit Committee have been appointed to advise in respect of the Transaction (and the 2011 CKH/Manager CPT Waiver and New Annual Caps in respect of such transactions) and the 2011 Continuing Connected Party Transactions and their advice is set out in the **“Letter from the Independent Board Committee and the Audit Committee”** in this Circular.

Based and in sole reliance on: (1) the opinion of the Board in this letter and other information and assurances provided by the Manager; (2) the opinion of the Independent Financial Advisers; and (3) the opinions of the Independent Property Valuers; and having taken into consideration (4) the Letter from the Independent Board Committee and the Audit Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that (a) the Transaction and the new 2011 Continuing Connected Party Transactions (and the 2011 CKH/Manager CPT Waiver and New Annual Caps in respect of such transactions) are fair and reasonable so far as the independent Unitholders, as well as the Unitholders as a whole are concerned and (b) the Transaction and the new 2011 Continuing Connected Party Transactions are consistent with Fortune REIT’s established investment objective and strategy and has given its consent for the Manager to proceed with the Transaction and the new 2011 Continuing Connected Party Transactions (or the 2011 CKH/Manager CPT Waiver or New Annual Caps in respect of such transactions).

The Trustee has not made any assessment of the merits or impact of the Transaction or the new 2011 Continuing Connected Party Transactions (or the 2011 CKH/Manager CPT Waiver or New Annual Caps in respect of such transactions), other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who are in any doubt as to the merits or impact of the Transaction or the new 2011 Continuing Connected Party Transactions (or the 2011 CKH/Manager CPT Waiver or New Annual Caps in respect of such transactions), to seek their own financial or other professional advice.

#### 11. RESPONSIBILITY STATEMENT

##### 11.1 Responsibility Statement of the Manager and the Directors

For the purposes of paragraphs 5.2A and 10.10(t) of the REIT Code, the Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

## LETTER TO THE UNITHOLDERS

For the purposes of Practice Note 12.1 of the Singapore Listing Manual, the Manager and the Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, (1) this Circular constitutes full and true disclosure of all material facts about the Transaction, Fortune REIT and its subsidiaries, and (2) the Manager and Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Manager and the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the circular in its proper form and context.

### 12. EXTRAORDINARY GENERAL MEETING

The EGM will be held at 3:00 p.m. on 19 January 2012 at Rooms 208-209, Level 2, Suntec Singapore International Convention and Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593, for the purpose of considering and, if thought fit, passing with or without amendments, the Ordinary Resolution set out in the EGM Notice, which is set out on pages N-1 to N-3 in this Circular.

The Register of Unitholders will be closed from 13 January 2012 to 19 January 2012, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) for registration by 4:30 p.m. on 12 January 2012, or to the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders) for registration by 5:00 p.m. on 12 January 2012.

You can vote at the EGM if you are a Unitholder at the close of business on 12 January 2012, which is referred to in this Circular as the Record Date. You will find enclosed with this Circular the EGM Notice (please refer to pages N-1 to N-3 in this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, whether or not you plan to attend the EGM in person, in accordance with the instructions printed on the form of proxy, and return it to: (a) the Singapore Unit Registrar of Fortune REIT, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar of Fortune REIT, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Persons who have an interest in the EGM Resolution (which includes all the persons referred to in section 8.4 headed "**Implications under the REIT Code and the Trust Deed – Restrictions on Voting**" above) must decline to accept appointment as proxies in respect of the EGM Resolution unless the Unitholder concerned has specific instructions in his form of proxy as to the manner in which his votes are to be cast in respect of the EGM Resolution.

**LETTER TO THE UNITHOLDERS**

**13. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully,  
By Order of the Board  
**ARA ASSET MANAGEMENT (FORTUNE) LIMITED**  
(as Manager of Fortune Real Estate Investment Trust)  
**ANG Meng Huat, Anthony**  
*Chief Executive Officer*

**FORTUNE**  
置富產業信託 **REIT**

**Fortune Real Estate Investment Trust**

*(constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003  
(as amended) and authorised as a collective investment scheme under section 286  
of the Securities and Futures Act, Chapter 289 of Singapore)*

*(a collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: Singapore: F25U and Hong Kong: 778)**

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

28 December 2011

*To: The independent Unitholders of Fortune REIT*

Dear Sir or Madam,

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO  
THE PROPOSED ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND  
THE PROVIDENT CENTRE PROPERTY, CONTINUING CONNECTED PARTY  
TRANSACTIONS AND RELATED MATTERS**

We have been appointed as members of the Independent Board Committee and the Audit Committee to advise you in respect of the Transaction and the 2011 Continuing Connected Party Transactions, details of which are set out in the “**Letter to the Unitholders**” in the circular dated 28 December 2011 from the Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

The Independent Financial Advisers have been appointed by the Manager and the Trustee to advise us, the independent Unitholders and the Trustee as to whether Transaction and the 2011 Continuing Connected Party Transactions are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the “**Letter from the Independent Financial Advisers**” the text of which is contained in the Circular.

Having taken into account the opinion of the Independent Financial Advisers and the principal factors and reasons considered by them, we consider that:

- (a) the Transaction is being carried out at arm’s length on normal commercial terms, in the ordinary and usual course of business of Fortune REIT and on terms which are fair and reasonable and in the interests of independent Unitholders, as well as the Unitholders as a whole; and

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE AND THE AUDIT COMMITTEE**

- (b) the 2011 CKH/Manager CPT Waiver and the New Annual Caps are fair and reasonable having regard to the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole; and the 2011 Continuing Connected Party Transactions are entered into: (i) in the ordinary and usual course of business of Fortune REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable and in, and not prejudicial to, the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole.

Accordingly, we recommend that the independent Unitholders vote in favour of the EGM Resolution.

Yours faithfully,  
Independent Board Committee and Audit Committee of  
**ARA Asset Management (Fortune) Limited**  
(as manager of Fortune Real Estate Investment Trust)

**LIM Lee Meng**  
*Independent Non-executive Director*

**SNG Sow-Mei (alias POON Sow Mei)**  
*Independent Non-executive Director*

**LAN Hong Tsung, David**  
*Independent Non-executive Director*



**CIMB BANK BERHAD** (13491-P)  
**Singapore Branch**  
*(Incorporated in Malaysia)*  
50 Raffles Place  
#09-01 Singapore Land Tower  
Singapore 048623

(in its capacity as  
the independent financial adviser  
for the purposes of Chapter 9  
of the Singapore Listing Manual)

**CIMB SECURITIES (HK) LIMITED**  
*(Incorporated in Hong Kong)*  
Units 7706-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

(in its capacity as  
the independent financial adviser  
for the purposes of paragraph 10.10(p)  
of the Code on Real Estate Investment Trusts)

28 December 2011

To: **The Independent Board Committee and the Audit Committee**  
**ARA Asset Management (Fortune) Limited**  
(as the Manager of Fortune Real Estate Investment Trust ("**Fortune REIT**"))  
6 Temasek Boulevard  
#16-02 Suntec Tower Four  
Singapore 038986

**HSBC Institutional Trust Services (Singapore) Limited**  
(as the Trustee of Fortune REIT)  
21 Collyer Quay  
#14-01 HSBC Building  
Singapore 049320

**The Independent Unitholders of**  
**Fortune REIT**

Dear Sirs,

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO  
THE PROPOSED ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND  
THE PROVIDENT CENTRE PROPERTY, CONTINUING CONNECTED PARTY  
TRANSACTIONS AND RELATED MATTERS**

**1. INTRODUCTION**

On 28 December 2011, ARA Asset Management (Fortune) Limited (the "**Manager**") announced that HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT (the "**Trustee**"), had entered into conditional agreements (the "**Purchase Agreements**") for the acquisition (the "**Acquisition**") of the Belvedere Garden Property and the Provident Centre Property (collectively, the "**New Properties**").

Unless otherwise defined or the context otherwise requires, all terms defined in the circular issued by Fortune REIT to its unitholders (the "**Unitholders**") dated 28 December 2011 in relation to *inter alia* the Acquisition (the "**Circular**") shall have the same meanings herein.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

The Securities and Futures Commission of Hong Kong (“SFC”) had previously granted a waiver (the “**Existing CKH/Manager CPT Waiver**”), subject to certain terms and conditions, from strict compliance with the disclosure and unitholders’ approval requirements under Chapter 8 of the Code on Real Estate Investment Trusts published by the SFC (the “**REIT Code**”) in respect of certain continuing connected party transactions between Fortune REIT and companies or entities held or controlled by it (collectively, the “**Fortune REIT Group**”) on the one hand, and the CKH Group or the Manager Group (as the case may be) on the other hand.

In connection with the Acquisition, the Manager is also proposing for Unitholders to approve a waiver in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand and the CKH Group and/or the Manager Group on the other hand (the “**2011 CKH/Manager CPT Waiver**”), that (a) takes into account the new and/or additional continuing connected party transactions that will arise as a result of the Acquisition; and (b) replaces the Existing CKH/Manager CPT Waiver so that the three-year waiver duration can commence afresh.

As at the Latest Practicable Date, Cheung Kong (Holdings) Limited (“**Cheung Kong**”) is deemed to hold an aggregate indirect interest in 525,630,684 units of Fortune REIT (the “**Units**”) representing approximately 31.3% of the existing Units. Accordingly, Cheung Kong is a Significant Holder (as defined in the REIT Code) of Fortune REIT and is also a Controlling Unitholder (as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Singapore Listing Manual**”) of Fortune REIT. Each of the Recoup Vendor, the Belvedere Garden (Remaining Portion) Vendor and the Provident Centre Vendor is a wholly-owned subsidiary of Hutchison Whampoa Limited (“**HWL**”) and HWL is an “associated company” of Cheung Kong within the meaning of the REIT Code. Cheung Kong Investment Company Limited, being one of the Minority Shareholders, is a member of the CKH Group. Accordingly, the Transaction constitutes a connected party transaction of Fortune REIT under paragraph 8.5 of the REIT Code, an Interested Person Transaction under Chapter 9 of the Singapore Listing Manual and an Interested Party Transaction of Fortune REIT under Appendix 6 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore in relation to real estate investment trusts (the “**Singapore Property Funds Appendix**”).

An independent committee of the board of directors of the Manager (the “**Independent Board Committee**”), comprising the same members as the audit committee of the board of directors of the Manager (the “**Audit Committee**”) namely Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Lan Hong Tsung, David, has been established and, together with the Audit Committee, will advise the independent Unitholders on (i) the Transaction; (ii) the 2011 Continuing Connected Party Transactions; (iii) the 2011 CKH/Manager CPT Waiver; and (iv) the New Annual Caps.

CIMB Securities (HK) Limited (the “**HK Independent Financial Adviser**”) has been appointed as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code, and CIMB Bank Berhad, Singapore Branch (the “**Singapore Independent Financial Adviser**”) has been appointed as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual, to advise the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee on whether:

- (i) the Transaction is (a) on normal commercial terms and not prejudicial to Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 9 of the Singapore Listing Manual; and (b) at arm’s



<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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length, on normal commercial terms and fair and reasonable and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 8 of the REIT Code; and

- (ii) the 2011 CKH/Manager CPT Waiver and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole; and the 2011 Continuing Connected Party Transactions are entered into (a) in the ordinary and usual course of business of Fortune REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable, not prejudicial to, and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole.

For convenience, the HK Independent Financial Adviser and the Singapore Independent Financial Adviser will be referred to in this letter as "we", "us", "CIMB" or other similar terminology. Notwithstanding such terminology, the HK Independent Financial Adviser will only provide its views and advice set out herein in its capacity as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code, and the Singapore Independent Financial Adviser will only provide its views and advice set out herein in its capacity as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual.

CIMB is independent of the Fortune REIT Group, the Trustee, the Manager, each of the significant holders of Fortune REIT and each of the relevant connected person(s) with respect to the Transaction and the 2011 Continuing Connected Party Transactions.

This letter sets out, *inter alia*, our opinion thereon and forms part of the Circular.

## 2. TERMS OF REFERENCE

We are not a party to any negotiation in relation to each of the Transaction, the 2011 CKH/Manager CPT Waiver or the 2011 Continuing Connected Party Transactions. We are also not involved in the deliberations leading up to the decision by the Manager and the Trustee to undertake the Transaction, to propose the 2011 CKH/Manager CPT Waiver and to undertake the 2011 Continuing Connected Party Transactions. We do not, by this letter, warrant or make any representation whatsoever in relation to the merits (whether commercial, financial or otherwise) of the Transaction, the 2011 CKH/Manager CPT Waiver or the 2011 Continuing Connected Party Transactions, other than to form an opinion on the Transaction, the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions.

For the purpose of arriving at our opinion, we have considered, amongst other things, (i) information set out in the Circular, including, *inter alia*, the terms of the Acquisition and the Purchase Agreements, the Accountants' Report, information on the New Properties, information on the Existing Continuing Connected Party Transactions and the 2011 Continuing Connected Party Transactions and information on the 2011 CKH/Manager CPT Waiver; (ii) the property valuation reports issued by Knight Frank Petty Limited ("**Knight Frank**") dated 28 December 2011 and issued by Savills Valuation and Professional Services Limited ("**Savills**") dated 28 December 2011 (collectively, the "**Valuation Reports**"); (iii) the Market Consultant's Report; (iv) the Property Management Agreement; (v) the Introduction Listing Document; (vi) Fortune REIT's FY2010 annual report; and (vii) other pertinent factors as set out in section 3 and section 4 of this letter.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Our terms of engagement do not require us to conduct, and we have not conducted, any review of the business plan, operations, financial performance and/or financial condition of Fortune REIT, the Trustee or the Manager.

We have also not made any evaluation or appraisal of the assets (including the property portfolio) and liabilities of Fortune REIT, the Trustee or the Manager and we have not been furnished any such evaluation and appraisal, except for the Valuation Reports as set out in Appendix 4 to the Circular. We are not and do not purport to be property experts. In respect of the Valuation Reports, we have placed sole reliance thereon for the asset appraisal contained therein. We are not experts in the evaluation or appraisal of properties and we have not made any independent verification of the matters or bases set out in the Valuation Reports. We have however discussed with the Independent Property Valuers in relation to the valuation methodologies, bases and assumptions adopted by each of them for the valuation of the New Properties and have also reviewed the bases and assumptions as set out in the Valuation Reports and found them to be reasonable and in line with market practice.

We are not required to and have not obtained any quotations or transaction prices from any third parties in respect of the matters which are the subject of the Transaction and in respect of the transactions which are the subject of the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions. We have not conducted any audit or specific review of the connected party transactions under the Existing CKH/Manager CPT Waiver and the 2011 CKH/Manager CPT Waiver (including the 2011 Continuing Connected Party Transactions) and we do not warrant or make any representation as to the actual implementation of Fortune REIT's review and control procedures relating to such connected party transactions.

We have reviewed information provided to us (as set out in the Circular and in this letter) by the management of the Manager. We have not independently verified such information, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of, such information. However, we have made reasonable enquiries and exercised our judgment as we deemed necessary on such information and we have no reason to doubt the truth, accuracy, reliability and completeness of the information, facts and representations provided and represented to us by the management of the Manager. We have also been advised by the management of the Manager and believe that no material facts or information have been omitted or withheld from the Circular.

The Directors (including those who may have delegated supervision of the Circular) have confirmed that they have taken all reasonable care to ensure that the facts stated and opinions expressed in the Circular (except this letter) are fair and accurate in all material respects and that no material facts have been omitted which would make any statement in the Circular misleading in any respect, and that they collectively and individually accept responsibility accordingly. However, in respect of this letter and the information provided to us in relation thereto, the sole responsibility of the Directors has been to ensure that the facts stated with respect to Fortune REIT, the Trustee, the Manager, the Transaction, the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions are, to the best of their knowledge and belief, fair and accurate in all material respects.

In formulating our opinion, we consider that we have been provided with and have reviewed sufficient and relevant information to reach an informed view and to provide a reasonable basis for our opinion. Our opinion in this letter are based upon market, economic, industry, monetary and other conditions prevailing on, and the information made

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

available to us as at 22 December 2011 (the “**Latest Practicable Date**”). Such conditions may change significantly over a short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein.

This letter does not purport to be a comprehensive or exhaustive description of all the considerations that may be relevant to the Unitholders. In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or particular needs and constraints of any individual Unitholder. As each Unitholder would have different investment objectives and profiles, we would advise that any individual Unitholder who may require specific advice in the context of his specific investment objectives or portfolio consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Manager has been separately advised by its own advisers in the preparation of the Circular (other than this letter). We are not involved in and have not provided any advice, financial or otherwise, in the preparation, review and verification of the Circular (other than this letter). Accordingly, we take no responsibility for and express no views, express or implied, on the content of the Circular (other than this letter).

While a copy of this letter may be reproduced in the Circular, none of the Manager, the Trustee nor any of their respective directors or representatives may reproduce, disseminate or refer to this letter or any part thereof for any other purposes at any time and in any manner without prior written notification to CIMB in each specific case.

Our opinion in respect of the Transaction, the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions should be considered in the context of the entirety of this letter and the Circular.

### 3. THE ACQUISITION

#### 3.1 Information on the Acquisition

The terms of the Acquisition and the Purchase Agreements are set out in section 2 of the Circular. We set out below a summary of the key terms:

(a) Fortune REIT proposes to acquire:

- (i) Belvedere Garden Property, which comprises shops, clinics, kindergartens, a market and 329 parking lots of the commercial portion of the development known as “Belvedere Garden” (the “**Belvedere Garden Development**”). Such components of the Belvedere Garden Property represent (among other things) all the commercial areas in Belvedere Garden Development Phase I and Belvedere Garden Development Phase III, and all of the commercial areas (except for one shop representing 3.7% of the undivided shares of the commercial area) of Belvedere Garden Development Phase II. While Fortune REIT will be acquiring all of the Belvedere Garden Property, the remainder of the Belvedere Garden Development which Fortune REIT will not be acquiring will continue to be owned by other owners; and
- (ii) Provident Centre Property, which comprises the shopping centre at the basement, ground floor, upper ground floor (but excluding carparks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the development known as

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

“Provident Centre” (the “**Provident Centre Development**”). The Provident Centre Property represents the entire commercial area and sub-basement of the Provident Centre Development. While Fortune REIT will be acquiring all of the Provident Centre Property, the remainder of the Provident Centre Development which Fortune REIT will not be acquiring will continue to be owned by other owners.

- (b) Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure the sale, transfer and assignment to the Trustee (or its nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income), as well as the Existing Vendor Loans. Pursuant to the Minority Interests Share Purchase Agreements, the Minority Shareholders (being Hollingshead Properties Limited and Cheung Kong Investment Company Limited) have agreed to sell, transfer and assign to the Trustee (or its nominee) the Minority Shareholders Shares with the rights attaching to them as at and from the Completion Date (including but not limited to the right to receive dividends and other distributions relating to income).
- (c) Pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement, the Belvedere Garden (Remaining Portion) Vendor has agreed to sell the Belvedere Garden (Remaining Portion) Property to the Trustee. Pursuant to the Provident Centre Asset Purchase Agreement, the Provident Centre Vendor has agreed to sell the Provident Centre Property to the Trustee.
- (d) The transactions contemplated under the Purchase Agreements will take place upon Completion, after which Fortune REIT will hold all the legal and economic interest in the Belvedere Garden Property and the Provident Centre Property.
- (e) The purchase consideration under the Master Share Purchase Agreement is HK\$1,042,146,616, subject to a customary adjustment for:
  - (i) the net current assets (such as all receivables, refundable utility and other deposits placed with relevant authorities or suppliers, all cash and deposits at bank and all prepaid operating expenses); and/or
  - (ii) the net current liabilities (such as all security deposits, all rental/licence fees received in advance in relation to the Belvedere Garden (Substantial Portion) Property, all payments due to creditors and accruals of property and other relevant expenses and all provision for taxation),

of the Target Company and its subsidiaries (the “**Target Company Group**”) as at Completion but excluding (i) the Existing Vendor Loans; (ii) the aggregate amount standing to the credit of the Target Company current account immediately prior to Completion as being an amount held on behalf of the Target Company by Hutchison Whampoa Properties Limited, a company incorporated in Hong Kong (“**HWPL**”), being HK\$28,240,757 as at 30 November 2011, being the latest practicable date for ascertaining such amount (the “**HWPL Receivable**”); as well as (iii) any deferred tax liabilities or deferred tax assets of the Target Company Group. The Master Share Purchase Agreement provides that prior to Completion, the Recoup Vendor must procure that any amounts owed to or from any member of the Target Company Group to persons outside the Target Company Group are consolidated, repaid or transferred, as applicable, so that the only outstanding loans owed to or from any member of the Target Company Group to persons

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

outside the Target Company Group as at Completion are the Existing Vendor Loans and the HWPL Receivable. Accordingly, upon Completion, all amounts due from (to) fellow subsidiaries and intermediate holding companies will become zero except for the Existing Vendor Loans and the HWPL Receivable.

- (f) The aggregate purchase consideration under the Minority Interests Share Purchase Agreements is HK\$143,397,384, subject to a customary adjustment for the net current assets/liabilities of Quebostar as at Completion and excluding any deferred tax liabilities or deferred tax assets of Quebostar, and is payable upon Completion.
- (g) Pursuant to the Belvedere Garden (Remaining Portion) Asset Purchase Agreement, the Belvedere Garden (Remaining Portion) Vendor has agreed to sell the Belvedere Garden (Remaining Portion) Property to the Trustee for a purchase consideration of HK\$64,456,000, payable upon Completion. As from but exclusive of the Completion Date, the rents and profits attributable to Fortune REIT in respect of the Belvedere Garden (Remaining Portion) Property will be received and all outgoings attributable to Fortune REIT in respect of that property will be discharged by or on behalf of Fortune REIT.
- (h) Pursuant to the Provident Centre Asset Purchase Agreement, the Provident Centre Vendor has agreed to sell the Provident Centre Property to the Trustee for a purchase consideration of HK\$650.0 million, payable upon Completion. As from but exclusive of the Completion Date, the rents and profits attributable to Fortune REIT in respect of the Provident Centre Property will be received and all outgoings attributable to Fortune REIT in respect of that property will be discharged by or on behalf of Fortune REIT.
- (i) The purchase consideration for each of the New Properties has been arrived at on a willing buyer and a willing seller in an arm's-length transaction basis after taking into account the valuations of the New Properties by the Independent Property Valuers.
- (j) Completion of the Acquisition shall take place on the date following 14 days after the conditions precedent to Completion under the Purchase Agreements have been met (or such other date as the parties may agree but not later than the date that falls three months after the date that the Purchase Agreements were signed, or such other date as the Recoup Vendor, the Minority Shareholders, the Belvedere Garden (Remaining Portion) Vendor or the Provident Centre Vendor (as the case may be) and the Trustee may agree in writing (the "**Long Stop Date**") and is conditional upon completion of each of the other Purchase Agreements.
- (k) Completion of the Acquisition is subject to and conditional upon satisfaction of a number of conditions, including but not limited to, the passing of the EGM Resolution and the obtaining of the New Facility and the New Facility being in place at Completion.
- (l) Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, each of the relevant Vendors and HWL or Cheung Kong (both as guarantors) (as the case may be) will, at Completion, enter into a deed of tax covenant in favour of the Trustee (the "**Deeds of Tax Covenant**"). Pursuant to each Deed of Tax Covenant, the relevant Vendor will covenant to indemnify the Trustee in respect of potential liabilities for taxation for the period up to (and, in certain limited circumstances, after) Completion including (among others) potential liability for taxation in relation to the Economic Benefit Sharing

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

Arrangement and all reasonable costs and expenses properly incurred and payable by any member of the Target Company Group or the Trustee, in the case of the Deed of Tax Covenant with the Recoup Vendor, or Quebostar or the Trustee (in connection with Quebostar only), in the case of the Deed of Tax Covenant with the CK Minority Shareholder, in connection with a successful claim under the Deeds of Tax Covenant.

The limitation period for claims under each Deed of Tax Covenant is seven years from the Completion Date.

Under the Deed of Tax Covenant to be entered into with the Recoup Vendor, in respect of liability for taxation to which Quebostar is subject (the "**Quebostar Liability for Taxation**"), the Recoup Vendor shall be liable for the amount of 85% of the indemnified amount payable by the Recoup Vendor in relation to the Quebostar Liability for Taxation, however 20% of such indemnified amount (the "**Hollingshead Tax Indemnity Portion**") shall (taken together with the indemnified amounts payable under the Hollingshead Elderly Homes Indemnity Portion) be limited to an aggregate maximum amount equal to the purchase consideration (as adjusted, if applicable) payable to the Hollingshead Minority Shareholder under the Hollingshead Share Purchase Agreement. In the event that such aggregate maximum cap is reached, the Recoup Vendor's ongoing liability shall be limited solely to 65% of the indemnified amount payable by the Recoup Vendor under the Deed of Tax Covenant in relation to the Quebostar Liability for Taxation.

Under the Deed of Tax Covenant to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for the amount of 15% of the indemnified amount payable in relation to the Quebostar Liability for Taxation.

- (m) Pursuant to the Master Share Purchase Agreement and the CK Share Purchase Agreement, each of the relevant Vendor and HWL or Cheung Kong (both as guarantors) (as the case may be) will, at Completion, enter into a deed of undertaking and indemnity in favour of the Trustee, Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited (the "**Deeds of Undertaking and Indemnity**"). Pursuant to each Deed of Undertaking and Indemnity, the relevant Vendor shall undertake to indemnify and keep Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited fully indemnified against potential fees and penalties in connection with the use of any part of Belvedere Garden Property Phase II as Elderly Homes and any termination costs in connection with the Affected Tenancies.

The limitation period for claims under each Deed of Undertaking and Indemnity is the period ending at the end of three months after (i) the expiry of the relevant term of each of the Affected Tenancies; or (ii) the early termination thereof, whichever is the earlier.

Under the Deed of Undertaking and Indemnity to be entered into with the Recoup Vendor, the Recoup Vendor shall be liable for 85% of the indemnified amount under such deed, however 20% of such indemnified amount (the "**Hollingshead Elderly Homes Indemnity Portion**") shall (taken together with the indemnified amounts payable under the Hollingshead Tax Indemnity Portion) be limited to a maximum amount equal to the purchase consideration (as adjusted, if applicable) payable to the Hollingshead Minority Shareholder under the Hollingshead Share Purchase Agreement. In the event that such aggregate



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

maximum cap is reached, the Recoup Vendor's ongoing liability shall be limited solely to 65% of such indemnified amount. Under the Deed of Undertaking and Indemnity to be entered into with the CK Minority Shareholder, the CK Minority Shareholder shall be liable for 15% of the indemnified amount under such deed. Save and except as described above regarding the limitation as to time and amount, the indemnification obligations of the Recoup Vendor and the CK Minority Shareholder under the Deeds of Undertaking and Indemnity are not limited as to time or amount.

- (n) The Belvedere Garden (Remaining Portion) Asset Purchase Agreement sets out that as a condition for the transfer of rental deposits (held by the Belvedere Garden (Remaining Portion) Vendor under the tenancy and licence agreements of the Belvedere Garden (Remaining Portion) Property) to the Belvedere Garden (Remaining Portion) Holding Company on completion of the sale and purchase of the Belvedere Garden (Remaining Portion) Property, the Belvedere Garden (Remaining Portion) Holding Company is required to execute a deed of indemnity in favour of the Belvedere Garden (Remaining Portion) Vendor in respect of any losses and damages suffered by the Belvedere Garden (Remaining Portion) Vendor if the Belvedere Garden (Remaining Portion) Holding Company fails to refund such deposits to the relevant tenants and licensees in accordance with such tenancy and licence agreements.

Similarly, the Provident Centre Asset Purchase Agreement sets out that as a condition for the transfer of rental deposits (held by the Provident Centre Vendor under the tenancy and licence agreements of the Provident Centre Property) to the Provident Centre Holding Company on completion of the sale and purchase of the Provident Centre Property, the Provident Centre Holding Company is required to execute a deed of indemnity in favour of the Provident Centre Vendor in respect of any losses and damages suffered by the Provident Centre Vendor if the Provident Centre Holding Company fails to refund such deposits to the relevant tenants and licensees in accordance with such tenancy and licence agreements.

The amount of rental deposits held by the Belvedere Garden (Remaining Portion) Vendor under the tenancy and licence agreements of the Belvedere Garden (Remaining Portion) Property and the Provident Centre Vendor under the tenancy and licence agreements of the Provident Centre Property would be determined as at the Completion Date. For illustrative purposes however, the amount of rental deposits in relation to the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property as at 30 November 2011 were HK\$221,793 and HK\$7,095,754 respectively.

- (o) The Recoup Vendor is an indirect holding company of the Existing Vendor Loan Borrowers. Each of the Existing Vendor Loan Borrowers is indebted to each of the relevant Existing Vendor Loan Lenders. Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure each of the Existing Vendor Loan Lenders to assign its respective portion of the Existing Vendor Loans to the Trustee (or a nominee of the Trustee) on a dollar for dollar basis upon Completion.

HWPL is indebted to the Target Company in relation to the HWPL Receivable. Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure that HWPL will transfer and the Trustee has agreed to assume (directly or through a nominee) the HWPL Receivable in consideration for a corresponding reduction in the consideration payable by the Trustee to the Existing Vendor Loan

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

Lenders for the assignment of the Existing Vendor Loans. Accordingly, at Completion, (1) each of the Existing Vendor Loan Lenders will assign their respective rights, title, interest and benefit in the Existing Vendor Loans to the Trustee or company nominated by the Trustee; and (2) HWPL will transfer the HWPL Receivable to a company nominated by the Trustee, in accordance with the Borrowings Assignment and Debt Transfer Deed.

The aggregate purchase consideration payable under the Master Share Purchase Agreement (subject to the adjustments referred to above), includes the consideration for the assignment of the Existing Vendor Loans less the amount of the HWPL Receivable.

- (p) HWL has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Recoup Vendor under the Master Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity and the due and punctual performance and observance by the Recoup Vendor of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Master Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity.

Cheung Kong has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the CK Minority Shareholder under the CK Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity and the due and punctual performance and observance by the CK Minority Shareholder of all its obligations, commitments, undertakings, warranties and indemnities under the CK Share Purchase Agreement, the relevant Deed of Tax Covenant and the relevant Deed of Undertaking and Indemnity.

The Hollingshead Minority Shareholder is giving limited warranties as to title to and freedom from encumbrances of the Hollingshead Minority Shareholder Shares due to the Hollingshead Minority Shareholder not being involved in the operations of Quebostar. Given the limited nature of the warranties, it has been commercially agreed that no guarantor is required under the Hollingshead Share Purchase Agreement.

- (q) Upon Completion, the operation, maintenance, management and marketing of the New Properties will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement entered into by the Manager, the Trustee and the Property Manager, as provided by the Deeds of Ratification and Accession as entered into between each of the Belvedere Garden (Substantial Portion) Holding Companies, the Belvedere Garden (Remaining Portion) Holding Company, the Provident Centre Holding Company, the Manager, the Trustee and the Property Manager. The fees payable to the Property Manager under the Property Management Agreement have not been changed since the listing of Fortune REIT on the SGX-ST in August 2003.
- (r) The Purchase Agreements were entered into by the parties thereto on normal commercial terms following arm's length negotiations. The Manager has conducted, and is satisfied with the results of, due diligence in respect of the New Properties carried out in accordance with the relevant provisions of the REIT Code



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

and the Manager's compliance manual, that Fortune REIT will hold good marketable legal and economic title to the New Properties immediately upon Completion.

- (s) The Total Consideration is to be financed by (i) the term loan facility of HK\$1,100 million under the New Facility; (ii) a HK\$970 million revolving credit facility (tranche B facility) made available to the Existing Facility Borrowers by a syndicate of banks for whom Standard Chartered Bank acts as facility and security agent under the Existing Facility; and (iii) internally generated funds. The term loan facility under the New Facility will be drawn down first, with the revolving credit facility of the Existing Facility and internally generated funds being used to finance the remainder of the Total Consideration. On a pro forma basis, Fortune REIT's Gearing Ratio/Aggregate Leverage is expected to increase to approximately 26.3% immediately after the Transaction.
- (t) The total fees and charges payable in relation to the Acquisition is estimated to amount to HK\$49.0 million. Accordingly, the total cost of the Acquisition, inclusive of the Total Consideration, is estimated to amount to HK\$1,949.0 million, subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar as applicable. This estimated total cost of the Acquisition represents approximately 18.9% of Fortune REIT's audited NAV/NTA of HK\$10,333.7 million as at 31 December 2010.

On Completion, the Manager will be entitled, under the Trust Deed, to receive an acquisition fee of HK\$19.0 million, which is equal to 1.0% of the acquisition price (i.e. HK\$1,900 million) for the New Properties (the "**Acquisition Fee**") and shall be paid to the Manager in Units (the "**Acquisition Fee Units**") as required under the Singapore Property Funds Appendix as soon as practicable after Completion. The Acquisition Fee will not be subject to customary adjustments for the net current assets/liabilities of the Target Company Group and Quebostar. The Manager has elected to receive the Acquisition Fee Units as Units listed on the SGX-ST at the prevailing market price on the SGX-ST. In addition, the Units to be issued to the Manager as payment of the Acquisition Fee are not to be sold within one year from their date of issuance.

Fortune REIT has incurred or is expected to incur other estimated fees and expenses (including stamp duty, advisory fees, professional fees and expenses) of approximately HK\$30.0 million in connection with the Acquisition.

- (u) After Completion, and as disclosed in the Introduction Listing Document, (i) the Manager will be entitled under the Trust Deed to receive from the Deposited Property, management fees attributable to the New Properties comprising (a) a base fee of 0.3% per annum of the value of the New Properties; and (b) a performance fee of 3.0% per annum of the Net Property Income attributable to the New Properties; and (ii) the Trustee will be entitled under the Trust Deed to receive out of the Deposited Property, a trustee fee, currently at the rate of 0.035% per annum of the value of the New Properties.

The Manager and the Trustee will be entitled to such fees attributable to the New Properties in the future for so long as the New Properties continue to form part of the Deposited Property.

### 3.2 Information on the New Properties

Information on the New Properties is set out in section 2.1, section 3 and Appendix 5 of the Circular. We set out below certain key information in relation to each of the New Properties as at 30 September 2011, unless otherwise indicated.

#### *Belvedere Garden Property*

The Belvedere Garden Property, which had a total Gross Rentable Area of 276,862 square feet ("**sq. ft.**") (excluding parking lots) as at 30 September 2011, comprises shops, clinics, kindergartens, a market and various parking lots. The Belvedere Garden Property comprises three phases, as shown in the table below:

Belvedere Garden Property Phase I	All of the commercial areas (shops, clinics and a kindergarten), 15 motorcycle parking spaces and 66 carparks in Belvedere Garden Development Phase I
Belvedere Garden Property Phase II	All of the commercial areas (shops and a kindergarten), except for a shop on the ground floor which has been assigned to The Financial Secretary Incorporated of Hong Kong, 52 carparks and common areas in Belvedere Garden Development Phase II
Belvedere Garden Property Phase III	All of the commercial areas (shops, market, and a kindergarten) and 196 carparks and common areas in Belvedere Garden Development Phase III

The Belvedere Garden Property is located in a strip of residential land along the waterfront near the western end of Tsuen Wan. It is part of the Belvedere Garden Development, a large scale residential development which also includes about 6,000 flats in 19 residential tower blocks. The Belvedere Garden Property serves the local needs within the Belvedere Garden Development and the residential catchment of nearby estates. It also serves the schools and industrial buildings around its area. The Belvedere Garden Property is in close proximity to both the Tsuen Wan MTR station and the Tsuen Wan West MTR station. It is easily accessible by private and public transportation such as taxis and franchised buses for shoppers.

Gross Rentable Area (excluding parking lots) .....	276,862 sq. ft.
Government Grant expiry .....	30 June 2047
Year and month of completion .....	Phase I — July 1987
	Phase II — October 1989
	Phase III — April 1991
Number of tenants .....	100
Number of parking lots .....	329
Valuation .....	HK\$1,300.0 million by Knight Frank (appointed by the Trustee)
	HK\$1,340.0 million by Savills (appointed by the Manager)
Purchase consideration .....	HK\$1,250.0 million

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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Ownership holding of (direct or indirect) Fortune REIT upon Completion .....	100%
Occupancy rate <sup>(1)</sup> .....	98.7% <sup>(2) (3)</sup>
Net Property Income <sup>(4)</sup> .....	HK\$51.5 million
Monthly rental per leased sq.ft. <sup>(5)</sup> .....	HK\$19.5
Gross Rentable Area leased to top five tenants as a percentage of total Gross Rentable Area <sup>(6)</sup> .....	39.5%
Gross Rental Income from top five tenants as a percentage of total Gross Rental Income <sup>(7)</sup> .....	29.0%

Notes:

- (1) The occupancy rate is calculated based on leased Gross Rentable Area in sq. ft., excluding the parking lots as at 30 September 2011.
- (2) The percentage of total Gross Rentable Area leased to Connected Persons as at 30 September 2011 was 19.8%.
- (3) The percentage of total Gross Rental Income from Connected Persons for the month ended 30 September 2011 was 16.4%.
- (4) Based on Net Property Income for the year ended 31 December 2010 (before the Manager's Performance Fee).
- (5) The monthly rental per leased sq. ft. is calculated by dividing the Gross Rental Income for the month ended 30 September 2011 by the leased Gross Rentable Area as at 30 September 2011.
- (6) Based on Gross Rentable Area leased to each tenant as at 30 September 2011.
- (7) Based on each tenant's percentage contribution to Gross Rental Income of the Belvedere Garden Property for the month ended 30 September 2011.

***Provident Centre Property***

The Provident Centre Property, as at 30 September 2011, had a total Gross Rentable Area of 180,238 sq. ft.. The Provident Centre Property comprises the shopping centre at the basement, ground floor and upper ground floor (but excluding car parks, driveways and the appurtenant areas, the common areas and facilities thereof and therein) and the sub-basement of the Provident Centre Development.

The Provident Centre Property is located at the harbourfront along the Island Eastern Corridor in North Point. It is part of the Provident Centre Development, a large scale residential development which also includes about 1,450 flats in 17 residential tower blocks. The Provident Centre Property serves the residents in the Provident Centre Development and the nearby City Garden which houses about 2,400 flats. The Provident Centre Property also serves the few hotels nearby, as well as schools and office blocks around its area. The Provident Centre Property is in close proximity to the North Point MTR station, which is the interchange station between Hong Kong Island and East Kowloon. The Provident Centre Property is also easily accessible by other public transportation such as buses, trams and mini-buses.

Gross Rentable Area (excluding parking lots) .....	180,238 sq. ft.
Government Grant expiry .....	4 September 2071
Year and month of completion .....	May 1984
Number of tenants .....	47
Number of parking lots .....	Nil

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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Ownership holding of (direct or indirect) Fortune REIT upon Completion .....	100%
Valuation .....	HK\$680.0 million by both Independent Property Valuers
Purchase consideration .....	HK\$650.0 million
Occupancy rate <sup>(1)</sup> .....	92.3% <sup>(2) (3)</sup>
Net Property Income <sup>(4)</sup> .....	HK\$27.8 million
Monthly rental per leased sq. ft. <sup>(5)</sup> .....	HK\$16.5
Gross Rentable Area leased to top five tenants as a percentage of total Gross Rentable Area <sup>(6)</sup> .....	53.1%
Gross Rental Income from top five tenants as a percentage of total Gross Rental Income <sup>(7)</sup> .....	51.3%

Notes:

- (1) The occupancy rate is calculated based on leased Gross Rentable Area in sq. ft. as at 30 September 2011.
- (2) The percentage of total Gross Rentable Area leased to Connected Persons as at 30 September 2011 was 40.2%.
- (3) The percentage of total Gross Rental Income from Connected Persons for the month ended 30 September 2011 was 41.3%.
- (4) Based on Net Property Income for the year ended 31 December 2010 (before the Manager's Performance Fee).
- (5) The average monthly rental per leased sq. ft. is calculated by dividing the Gross Rental Income for the month ended 30 September 2011 by the leased Gross Rentable Area as at 30 September 2011.
- (6) Based on Gross Rentable Area leased to each tenant as at 30 September 2011.
- (7) Based on each tenant's percentage contribution to Gross Rental Income of the Provident Centre Property for the month ended 30 September 2011.

### 3.3 Evaluation of the Acquisition

In our evaluation of whether the Transaction is (a) on normal commercial terms and not prejudicial to Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 9 of the Singapore Listing Manual; and (b) at arm's length, on normal commercial terms and fair and reasonable and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 8 of the REIT Code, we have taken into consideration the following principal pertinent factors:

- (a) reasons for, and benefits of, the Transaction;
- (b) valuation of the New Properties as appraised by the Independent Property Valuers;
- (c) the property yields of the New Properties as compared to those of:
  - (i) the Existing Properties;
  - (ii) comparable properties held by REITs listed on the Hong Kong Stock Exchange; and

- (iii) past acquisitions of retail properties by Fortune REIT;
- (d) the gross unit price per sq. ft. in selected transactions involving shopping centres in Hong Kong;
- (e) financial effects of the Transaction on Fortune REIT; and
- (f) other relevant considerations as set out under section 3.4 of this letter.

### 3.3.1 Reasons for, and benefits of, the Transaction

The reasons for, and benefits of, the Acquisition are set out under section 2.5 of the Circular. We set out below a summary of the reasons for, and benefits of, the Acquisition:

- (a) **Yield accretion.** The Net Property Income yield of the New Properties for the year ended 31 December 2010 was 4.2%. This is higher than the Net Property Income yield of 3.9% for the Existing Properties for the year ended 31 December 2010. Based on the pro-forma financials, assuming that the New Properties had been acquired by Fortune REIT since 1 January 2011, the pro-forma enlarged DPU of 13.66 HK cents represents a 6.7% increase from Fortune REIT's DPU of 12.80 HK cents for the six months ended 30 June 2011.
- (b) **Acquisition of quality assets with high occupancy rates and strategic location.** The New Properties will provide Fortune REIT with additional stable and growing rental cash flow, which will be beneficial to the Unitholders. The Acquisition supports the Manager's acquisition growth strategy of owning commercial properties with high occupancy and long term growth potential. According to the Market Consultant's Report, the New Properties are located in established large residential population areas (namely North Point and Tsuen Wan). Both New Properties benefit from convenient transport infrastructure, with easy access to various modes of transport, and are well connected to the urban areas and other parts of Hong Kong.
- (c) **Strong retail market and robust local economy.** According to the Market Consultant's Report, Hong Kong retail sales have grown strongly over the past few years as a result of strong local spending underpinned by the robust local economy. The Acquisition provides Unitholders an opportunity to capitalise on the growing Hong Kong retail market while enhancing Fortune REIT's existing property portfolio through the acquisition of two high quality assets in strategic locations. It also represents an opportunity for Fortune REIT to acquire income-producing properties below their independent valuations.
- (d) **Greater income diversification and increased economies of scale.** The Acquisition will further enhance the income diversification of Fortune REIT and reduce the reliance of Fortune REIT's income stream on any one single property. Further income diversification means greater resilience and stability of income streams for Fortune REIT, thus benefiting the Unitholders. In addition, the Provident Centre Property will be Fortune REIT's first acquisition located on the Hong Kong Island, which will allow Fortune REIT to further diversify its property portfolio geographically by increasing exposure in the property market on Hong Kong Island. The Acquisition will enable Fortune

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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REIT to benefit further from economies of scale as the Manager and the Property Manager can spread fixed operating costs over a larger portfolio, and enjoy cost savings.

- (e) **Efficient capital management.** The Manager believes that by leveraging on Fortune REIT's strong balance sheet and the support of its core financing banks, Fortune REIT is able to efficiently utilise its available debt headroom to acquire the New Properties without having to raise new equity. Upon the completion of the Acquisition, the Gearing Ratio/Aggregate Leverage of Fortune REIT will be approximately 26.3%. The Manager believes that this level is prudent under the current market conditions and does not exceed the borrowing limits under the Applicable Rules that currently limit: (a) the Aggregate Leverage to 35%; and (b) the Gearing Ratio to 45%.

### **3.3.2 Valuation of the New Properties as appraised by the Independent Property Valuers**

Savills and Knight Frank were commissioned by the Manager and the Trustee respectively to assess the market value of the New Properties. Please refer to Appendix 4 to the Circular for a copy of the Valuation Reports from each of the Independent Property Valuers.

As stated in the Valuation Reports, "market value" is defined and intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

The valuation methodologies adopted by Savills and Knight Frank in arriving at the market value of the New Properties are set out below:

Valuation methodology	Description
<b>Savills</b>	
(i) Income capitalization	<p>The existing net rental incomes (i.e. exclusive of rates, Government rent and management fees) of all lettable units of each property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the valuation date, which is in turn capitalized for the unexpired term of the Government lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversion income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of each property.</p> <p>The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalization rate adopted is determined by reference to the yields achieved in analysed market sales transactions and the valuer's knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.</p>
(ii) Direct comparison	<p>Comparable sales transactions around the valuation date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the properties and comparables in terms of time, location, accessibility, age, building quality and condition and the like.</p>



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

Valuation methodology	Description
<b>Knight Frank</b>	
(i) Income capitalization	Existing net rental incomes, i.e. rent exclusive of rates, government rents, management fees, air-conditioning charges and other tenants' outgoings, of all lettable units of a property are capitalized for its unexpired term of contractual tenancies. Upon reversion, i.e. at the expiry of the existing tenancy, each unit is assumed to be let at its market rent as at the valuation date, which is in turn capitalized at market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government leases upon their expiries. Any vacant units are assumed to be let at their respective market rents at the valuation date. The market value of the property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred.
(ii) Direct comparison	Sales evidence of shopping arcade and carpark transaction records have been collected and analyzed in terms of unit price per sq. ft. and unit rate per space respectively. As there were limited shopping arcade transactions, where appropriate, reference was also made to strata titled transactions.

We note that both the Independent Property Valuers had adopted the income capitalization approach and used the direct comparison approach as a cross reference in their respective valuations. We further note that the Valuation Reports were prepared pursuant to Chapter 6.8 of the REIT Code and The HKIS Valuation Standards on Properties (1st edition 2005) published by the Hong Kong Institute of Surveyors.

The market value of the New Properties as at 30 September 2011, as determined by Savills and Knight Frank, are set out below:

	Market Value (HK\$'million)		Total Consideration (HK\$'million)
	Knight Frank	Savills	
Belvedere Garden Property .....	1,300.0	1,340.0	1,250.0 <sup>(1)(2)</sup>
Provident Centre Property .....	680.0	680.0	650.0 <sup>(1)(2)</sup>
<b>Total</b> .....	<b>1,980.0</b>	<b>2,200.0</b>	<b>1,900.0<sup>(1)(2)</sup></b>

Notes:

- (1) These represent the purchase consideration amounts attributed to each of the Belvedere Garden Property and the Provident Centre Property in substance. Where acquisition of interest in the New Properties is by way of acquiring companies holding such interests (as opposed to directly purchasing the title to the properties), the purchase consideration will be subject to the customary adjustment for the net current assets/liabilities of such companies at Completion. Details of such adjustments are set out in sections 2.4.1 and 2.4.2 of the Circular.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

- (2) Pursuant to the Master Share Purchase Agreement, the Recoup Vendor has agreed to procure each of the Existing Vendor Loan Lenders to assign its respective portion of the Existing Vendor Loans to the Trustee (or a nominee of the Trustee) on a dollar for dollar basis upon Completion. In addition, the Recoup Vendor has also pursuant to the Master Share Purchase Agreement agreed to procure HWPL to transfer the HWPL Receivable to the Trustee (or a nominee of the Trustee) in consideration for a corresponding reduction in the consideration payable by the Trustee to the Existing Vendor Loan Lenders for the assignment of the Existing Vendor Loans. Accordingly, at Completion, (a) each of the Existing Vendor Loan Lenders will assign their respective rights, title, interest and benefit in the Existing Vendor Loans to the Trustee or company nominated by the Trustee; and (b) HWPL will transfer the HWPL Receivable to a company nominated by the Trustee, in accordance with the Borrowings Assignment and Debt Transfer Deed.

As illustrated in the table above, we note that the Total Consideration is at a discount of HK\$100 million or 5% to the average of total market value of the New Properties as ascribed by Knight Frank and Savills of HK\$2,000 million.

**3.3.3 Property yields of the New Properties as compared to those of the Existing Properties**

The property yield of each of the New Properties, as estimated by Savills and Knight Frank, is set out below:

	<u>Property Yield (%)</u>		<u>Average (%)</u>
	<u>Knight Frank<sup>(1)</sup></u>	<u>Savills<sup>(2)</sup></u>	
Belvedere Garden Property .....	5.20	5.00	5.10
Provident Centre Property .....	4.80	4.80	4.80

Notes:

- (1) As stated in the Valuation Report of Knight Frank, estimated net property yield is based on the monthly net rental income, licence fees and miscellaneous incomes of the respective New Properties as at 30 September 2011 and the average monthly net income receivable from parking lots, etc. during the period from July 2010 to June 2011.
- (2) As stated in the Valuation Report of Savills, estimated net property yield is based on the net monthly rental and licence income of the retail portion and miscellaneous spaces for the respective New Properties for September 2011 and the average net monthly income of the parking lots for the period of January 2011 to June 2011 (where applicable).

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

We set out below a comparison of the average estimated property yields of the New Properties against the property yields of the Existing Properties. We wish to highlight that the Existing Properties may differ from the New Properties in terms of, *inter alia*, building size and design, location, tenant composition, operating history and future prospects. As such, any comparison made is necessarily limited and merely serves only as an illustrative guide.

<u>Property</u>	<u>Valuation date</u>	<u>Property yield <sup>(1)</sup></u> (%)
Fortune City One (previously known as City One Shatin Property ) . . . . .	31 December 2010	3.91
Ma On Shan Plaza . . . . .	31 December 2010	5.24
Metro Town . . . . .	31 December 2010	4.14
Fortune Metropolis (previously known as The Metropolis Mall ) . . . . .	31 December 2010	4.49
Waldorf Avenue (previously known as Waldorf Garden Property ) . . . . .	31 December 2010	5.02
Caribbean Square (previously known as Caribbean Bazaar ) . . . . .	31 December 2010	4.66
Smartland . . . . .	31 December 2010	4.70
Tsing Yi Square (previously known as Tsing Yi Square Property ) . . . . .	31 December 2010	4.86
Jubilee Square (previously known as Jubilee Court Shopping Centre ) . . . . .	31 December 2010	4.82
Nob Hill Square (previously known as The Household Center ) . . . . .	31 December 2010	4.97
Centre de Laguna (previously known as Centre de Laguna Property ) . . . . .	31 December 2010	4.38
Hampton Loft . . . . .	31 December 2010	5.42
Lido Avenue (previously known as Lido Garden Property ) . . . . .	31 December 2010	4.41
Rhine Avenue (previously known as Rhine Garden Property ) . . . . .	31 December 2010	4.93
	<b>High</b>	<b>5.42</b>
	<b>Low</b>	<b>3.91</b>
	<b>Median</b>	<b>4.76</b>
	<b>Mean</b>	<b>4.71</b>
<b>Belvedere Garden Property . . . . .</b>	<b>30 September 2011</b>	<b>5.10</b>
<b>Provident Centre Property . . . . .</b>	<b>30 September 2011</b>	<b>4.80</b>

Source: Fortune REIT's 2010 annual report and Valuation Reports from the Independent Property Valuers.

Note:

(1) Property yields of the Existing Properties are computed based on the net property income of the respective Existing Properties for the financial year ended 31 December ("FY") 2010 divided by the market valuation of the respective Existing Properties as extracted from Fortune REIT's FY2010 annual report. Property yields of the New Properties are based on the average property yields as estimated by the Independent Property Valuers.

Based on the above, we note that the average estimated property yield for each of the New Properties is within the range and above the mean and median property yields of the Existing Properties.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

**3.3.4 Property yields of the New Properties as compared to those of the comparable properties held by REITs listed in Hong Kong**

In assessing the Acquisition, we compare the average estimated property yields of the New Properties against retail properties which are located in residential areas of Hong Kong and owned by REITs listed on the Hong Kong Stock Exchange (including Fortune REIT) with a market valuation above HK\$650 million as at their respective valuation date, and which we consider to represent closer comparison to the New Properties (the “Comparable Properties”). We wish to highlight that although the Comparable Properties are broadly comparable to the New Properties in terms of them being retail properties located in Hong Kong, such Comparable Properties may not be exhaustive and may differ from the New Properties in terms of, inter alia, building size and design, geographical location, tenant composition, operating history and future prospects. As such, any comparison made is necessarily limited and merely serves only as an illustrative guide.

We set out below a comparison of the average estimated property yields of the New Properties against the property yields of the Comparable Properties.

<u>Name of REIT</u>	<u>Number of Comparable Properties held by the REIT</u>	<u>Property yields of the Comparable Properties <sup>(1)</sup></u> (%)	<u>Valuation date of Comparable Properties</u>
Fortune REIT .....	5	3.9 to 5.2	31 December 2010
REIT A <sup>(2)</sup> .....	29	3.8 to 6.6	31 March 2011
REIT B <sup>(2)</sup> .....	1	3.8	30 June 2011
<b>High</b> .....		<b>6.6</b>	
<b>Low</b> .....		<b>3.8</b>	
<b>Median</b> .....		<b>6.0</b>	
<b>Mean</b> .....		<b>5.6</b>	
<b>Belvedere Garden Property</b> .....		<b>5.1</b>	<b>30 September 2011</b>
<b>Provident Centre Property</b> .....		<b>4.8</b>	<b>30 September 2011</b>

Source: Annual reports of the respective REITs and Valuation Reports from the Independent Property Valuers.

Notes:

- (1) The property yields of the Comparable Properties of Fortune REIT are computed based on the net property income of the respective properties for FY2010 divided by the market valuation of the respective properties as extracted from Fortune REIT’s FY2010 annual report. Property yields of the Comparable Properties of REIT A are extracted from the annual report of REIT A for the financial year ended 31 March 2011. The property yields of the Comparable Properties of REIT B are computed based on the net property income of the respective properties for the financial year ended 30 June 2011 divided by the appraised value of the respective properties as extracted from REIT B’s annual report for the financial year ended 30 June 2011. The property yields of the New Properties are based on average of the estimates by the Independent Property Valuers.
- (2) The REITs listed on the Hong Kong Stock Exchange have been code-named “REIT A” and “REIT B” in the table above.

Based on the above, we note that the average estimated property yield of each of Belvedere Garden Property and Provident Centre Property is within the range but below the mean and median property yields of the Comparable Properties.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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### 3.3.5 Property yields of the New Properties as compared to past acquisitions by Fortune REIT

We note that Fortune REIT had in October 2009, completed the acquisitions of three properties which are located in Hong Kong, being Metro Town, Caribbean Bazaar and Hampton Loft (the “**Past Acquisitions**”). We wish to highlight that the retail properties acquired in the Past Acquisitions differ from the New Properties in terms of, inter alia, timing of acquisition, building size and design, location, tenant composition, operating history and future prospects. As such, any comparison made is necessarily limited and merely serves only as an illustrative guide.

We set out below a comparison of the average estimated property yields of the New Properties against the property yields in the Past Acquisitions.

<u>Name of property</u>	<u>Location</u>	<u>Net property yield <sup>(1)</sup></u> (%)
Metro Town . . . . .	8 King Ling Road, Tseung Kwan O	4.80
Caribbean Bazaar . . . . .	1 Kin Tong Road, Tung Chung	5.70
Hampton Loft . . . . .	11 Hoi Fan Road, Kowloon	5.70
	<b>High</b>	<b>5.70</b>
	<b>Low</b>	<b>4.80</b>
	<b>Median</b>	<b>5.70</b>
	<b>Mean</b>	<b>5.40</b>
<b>Belvedere Garden Property . . . . .</b>		<b>5.10</b>
<b>Provident Centre Property . . . . .</b>		<b>4.80</b>

Source: Circular issued by Fortune REIT to its Unitholders dated 24 August 2009 in relation to the Past Acquisitions and Valuation Reports from the Independent Property Valuers.

Note:

- (1) Property yields for the properties in the Past Acquisitions are based on net property income in FY2008. Property yields of the New Properties are based on the average property yields as estimated by the Independent Property Valuers.

Based on the above, we note that the average estimated property yield for each of the New Properties is within the range but below the mean and median property yield of the properties acquired in the Past Acquisitions.

### 3.3.6 Gross unit price per sq. ft. of the New Properties as compared to selected transactions involving shopping centres in Hong Kong

We note that the Manager has commissioned Savills (Hong Kong) Limited to prepare a report on the overview of the retail sector in Hong Kong and an assessment of the New Properties (the “**Market Consultant’s Report**”). The full Market Consultant’s Report is set out in Appendix 5 to the Circular.

Based on our review of the Market Consultant’s Report, we have selected from the Market Consultant’s Report nine of the transactions (the “**Selected Transactions**”) in the last five years involving major shopping centers which are located in established residential areas in Hong Kong and which are in our opinion, may be broadly comparable to the New Properties, details of which are set out below. We wish to highlight that the Selected Transactions set out below may not be exhaustive and the shopping centres listed below may differ from the New Properties in terms of, *inter*

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

*alia*, timing of acquisition, building size and design, geographical location, tenant composition, operating history and future prospects. As such, it merely serves only as an illustrative guide.

<u>Name of property</u>	<u>District</u>	<u>Consideration (HK\$'million)</u>	<u>Transaction Date</u>	<u>Gross Area (sq. ft.)</u>	<u>Price per sq. ft. (HK\$)</u>
La Fontaine, 6 Chui Lok Street . . . . .	Tai Po	120.2	May 2007	29,804	4,033.0
Allway Gardens Shopping Centre and car parks . . . . .	Tsuen Wan	221.8	June 2007	223,000	994.6
Seaview Crescent . . . . .	Tung Chung	100.0	September 2008	38,000	2,631.6
Grandeur Terrace . . . . .	Tin Shui Wai	303.0	April 2009	46,716	6,486.0
Fitfort, Healthy Gardens, 560 King's Road . . . . .	North Point	935.0	October 2009	124,149	7,531.3
Fortress Tower, 250 King's Road . . . . .	North Point	355.0	November 2009	38,349	9,257.1
Beacon Lodge, 338 Shun Ning Road . . . . .	Sham Shui Po	120.0	January 2010	22,429	5,350.2
Florient Rise, 38 Cherry Street .	Tai Kok Tsui	350.0	November 2010	61,347	5,705.3
Nan Fung Plaza . . . . .	Tseung Kwan O	1,170.0	June 2011	176,000	6,647.7
				<b>High</b>	<b>9,257.1</b>
				<b>Low</b>	<b>994.6</b>
				<b>Median</b>	<b>5,705.3</b>
				<b>Mean</b>	<b>5,404.1</b>
<b>Belvedere Garden Property . .</b>	<b>Tsuen Wan</b>	<b>1,250</b>	<b>December 2011</b>	<b>276,862</b>	<b>4,514.9<sup>(1)</sup></b>
<b>Provident Centre Property . . .</b>	<b>North Point</b>	<b>650</b>	<b>December 2011</b>	<b>180,238</b>	<b>3,606.3<sup>(1)</sup></b>

Source: Market Consultant's Report, Valuation Reports from the Independent Property Valuers and CIMB's computations.

Note:

- (1) The price per sq. ft. of the New Properties is computed using the purchase consideration for the respective New Properties divided by their gross rentable area.

Based on the above, we note that the gross unit price per sq. ft. for each of the New Properties is below the mean and median gross unit price per sq. ft. of the Selected Transactions.

**3.3.7 Financial effects of the Transaction**

The financial effects of the Transaction on Fortune REIT are set out in section 4 of the Circular. Unitholders should note that such financial effects are strictly for illustrative purposes only and are based on various assumptions as set out in section 4.1 of the Circular. Based on these financial effects of the Transaction, the Manager does not foresee any material adverse impact on the financial position of Fortune REIT as a result of the Transaction.

We wish to highlight the following:

- (i) the pro forma DPU of Fortune REIT for FY2010 will increase from 24.35 HK cents to 25.63 HK cents (assuming Fortune REIT had purchased the New Properties on 1 January 2010 and held and operated the New Properties through to 31 December 2010);

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

- (ii) the pro forma DPU of Fortune REIT for the six-month financial period ended 30 June 2011 will increase from 12.80 HK cents to 13.66 HK cents (assuming Fortune REIT had purchased the New Properties on 1 January 2011 and held and operated the New Properties through to 30 June 2011);
- (iii) the pro forma NAV per Unit as at 31 December 2010 will decrease slightly from HK\$6.18 to HK\$6.14 (assuming Fortune REIT had purchased the New Properties on 31 December 2010);
- (iv) the pro forma NAV per Unit as at 30 September 2011 will decrease slightly from HK\$7.48 to HK\$7.44 (assuming Fortune REIT had purchased the New Properties on 30 September 2011);
- (v) the pro forma Gearing Ratio/Aggregate Leverage of Fortune REIT as at 31 December 2010 will increase from approximately 21.0% to approximately 28.3% (assuming Fortune REIT had purchased the New Properties on 31 December 2010); and
- (vi) the pro forma Gearing Ratio/Aggregate Leverage of Fortune REIT as at 30 September 2011 will increase from approximately 20.1% to approximately 26.3% (assuming Fortune REIT had purchased the New Properties on 30 September 2011).

### 3.4 Other relevant considerations

#### 3.4.1 Adjustment to the purchase consideration

The purchase consideration under the Master Share Purchase Agreement is HK\$1,042,146,616, subject to a customary adjustment for:

- (a) the net current assets (such as all receivables, refundable utility and other deposits placed with relevant authorities or suppliers, all cash and deposits at bank and all prepaid operating expenses); and/or
- (b) the net current liabilities (such as all security deposits, all rental/licence fees received in advance in relation to the Belvedere Garden (Substantial Portion) Property, all payments due to creditors and accruals of property and other relevant expenses and all provision for taxation),

of the Target Company Group as at Completion but excluding (i) the Existing Vendor Loans; (ii) the HWPL Receivable, being HK\$28,240,757 as at 30 November 2011, being the latest practicable date for ascertaining such amount; as well as (iii) any deferred tax liabilities or deferred tax assets of the Target Company Group. The Master Share Purchase Agreement provides that prior to Completion, the Recoup Vendor must procure that any amounts owed to or from any member of the Target Company Group to persons outside the Target Company Group are consolidated, repaid or transferred, as applicable, so that the only outstanding loans owed to or from any member of the Target Company Group to persons outside the Target Company Group as at Completion are the Existing Vendor Loans and the HWPL Receivable. Accordingly, upon Completion, all amounts due from (to) fellow subsidiaries and intermediate holding companies will become zero except for the Existing Vendor Loans and the HWPL Receivable.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

The adjustment for the net current assets/liabilities of the Target Company Group will: (a) exclude 35% of the net current assets/liabilities of Quebostar; and (b) be set out in a pro forma completion balance sheet to be provided by the Recoup Vendor to the Trustee shortly prior to Completion. Such adjustment will be audited within 90 days after Completion with a view to making any final post-completion adjustments that may be applicable either in favour of the Trustee or the Recoup Vendor.

The above form of adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Trustee on other transactions in the past. The purchase consideration payable under the Master Share Purchase Agreement as adjusted in the manner described above shall on Completion be applied: (1) firstly, as payment on a dollar-for-dollar basis for the assignment to the Trustee (or a nominee of the Trustee) of the Existing Vendor Loans, where such payment is reduced by the amount of the HWPL Receivable to be assumed by the Trustee (or a nominee of the Trustee) as a liability to be repaid to the Target Company; and (2) thereafter, as payment for the transfer of the Target Company Shares.

The Manager does not contemplate any adjustments for non-current assets and liabilities, as there are no material non-current assets/liabilities (other than the New Properties) and the Master Share Purchase Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of the Target Company Group during the period between signing and Completion. For example, the Master Share Purchase Agreement contains covenants that, among others: (a) require members of the Target Company Group not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict members of the Target Company Group from entering into any agreement or incurring any commitment involving material expenditure, without the prior written consent of the Trustee; and (c) restrict members of the Target Company Group from incurring additional borrowing and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee. These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of the Target Company Group arising from acts or omissions of the Recoup Vendor.

Pursuant to the Master Share Purchase Agreement and the Borrowings Assignment and Debt Transfer Deed, part of the purchase consideration (such part being equal to the aggregate amount of the Existing Vendor Loans less the amount of the HWPL Receivable) will be paid upon Completion by the Trustee to the Existing Vendor Loan Lenders who will then assign these loans on a dollar-for-dollar basis to the Trustee or any nominee of the Trustee upon Completion while the Trustee (or a nominee of the Trustee) will assume the liability to repay the HWPL Receivable to the Target Company. The remaining amount will be paid upon Completion by the Trustee to the Recoup Vendor for the Target Company Shares.

The aggregate purchase consideration under the Minority Interests Share Purchase Agreement is HK\$143,397,384, subject to a customary adjustment for the net current assets/liabilities of Quebostar as at Completion and excluding any deferred tax liabilities or deferred tax assets of Quebostar, and is payable upon Completion.

The adjustment for the net current assets/liabilities of Quebostar will (a) take into consideration the fact that Hollingshead Minority Shareholder owns only 20% of the issued share capital of Quebostar and the CK Minority Shareholder owns only 15% of the issued share capital of Quebostar; and (b) be set out in a pro forma completion

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

balance sheet to be provided by the Minority Shareholders to the Trustee shortly prior to Completion. Such adjustment will be audited within 90 days after Completion with a view to making any final post-completion adjustments that may be applicable either in favour of the Trustee or the Minority Shareholders.

The above form of adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Trustee on other transactions in the past.

The Manager does not contemplate any adjustments for non-current assets and liabilities, as there are no material non-current assets/liabilities (other than the New Properties) and the CK Share Purchase Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of Quebostar during the period between signing and Completion. For example, the CK Share Purchase Agreement contains covenants that, among others: (a) require Quebostar not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict Quebostar from entering into any agreement or incurring any commitment involving material expenditure, without the prior written consent of the Trustee; and (c) restrict Quebostar from incurring additional borrowing and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee.

These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of Quebostar arising from acts or omissions of the CK Minority Shareholder.

We wish to highlight that an adjustment mechanism similar to the aforementioned customary adjustment was also applied in certain of the Past Acquisitions by Fortune REIT in October 2009.

As noted from the Accountants' Report as set out in Appendix 2 to the Circular, as at 30 June 2011, the Target Company (and the 35% interest in Quebostar) had no other non-current assets, save for completed properties (being certain portion of the Belvedere Garden Property) for sale which amounted to approximately HK\$695.6 million and represented approximately 89.1% of the total assets. As at 30 June 2011, the current assets of the Target Company (and the 35% interest in Quebostar) mainly comprised of (a) trade and other receivables and bank balances and cash with an aggregate amount of approximately HK\$41.1 million, which is immaterial in terms of the total assets size; and (b) amounts due from fellow subsidiaries/intermediate holding company (the "**Amounts Due From Target Members**") which in aggregate amounted to approximately HK\$44.3 million and, together with the below-mentioned Amounts Due To Target Members, will be consolidated, repaid or transferred as applicable prior to Completion as detailed below.

We also note from the Accountants' Report, as at 30 June 2011, the Target Company (and the 35% interest in Quebostar) had no non-current liabilities. The total current liabilities mainly comprised of (a) trade-related payables; and (b) loans from/ amounts due to fellow subsidiaries/intermediate holding company (the "**Amounts Due To Target Members**"), the latter of which, together with the above-mentioned Amounts Due From Target Members, will be procured by the Recoup Vendor, pursuant to the Master Share Purchase Agreement, to be consolidated, repaid or transferred as applicable prior to Completion so that the only outstanding loans owed to or from any member of the Target Company Group to persons outside the Target Company Group

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

as at Completion are the Existing Vendor Loans and the HWPL Receivable which in turn will be assigned or transferred in accordance with the Borrowings Assignment and Debt Transfer Deed.

Given the above, the adjustment mechanism provided under the Share Purchase Agreements in respect of the purchase consideration of the acquisition of the Belvedere Garden (Substantial Portion) Property for net current assets/liabilities of the Target Company or Quebostar (as applicable) at Completion (as set out in sections 2.4.1 and 2.4.2 in the Circular) is in substance an adjustment for the change in the net assets of the Target Company (and the 35% interest in Quebostar).

Based on our understanding from the management of the Manager, the Total Consideration is determined mainly based on the valuations of the New Properties by the Independent Property Valuers, and the transaction is in substance the acquisition of the New Properties by way of acquiring companies (that is the Target Company and the 35% interest in Quebostar) holding the Belvedere Garden (Substantial Portion) Property and directly purchasing the Belvedere Garden (Remaining Portion) Property and the Provident Centre Property.

### **3.4.2 Management strategy for the New Properties**

We note that should the Acquisition be completed, the Manager intends to continue with the same key objectives and principal investment strategies for Fortune REIT, which are described in the section entitled "Strategy" in the Introduction Listing Document, certain aspects of which are set out under section 3.6 of the Circular.

We wish to highlight that as at the Latest Practicable Date, the Manager had no specific plans for renovation or improvement of the New Properties and the Manager may or may not carry out such activities depending on the needs of the New Properties as the Manager considers appropriate.

### **3.4.3 Competition**

We note that the New Properties are located in established residential areas and benefit from a large resident population within its immediate catchment area. In addition, the New Properties are well-served by public transportation systems which add to the ease of shopper access. The New Properties cater mainly to the daily needs and necessities of the residents in the catchment area. The Market Consultant has analysed the competitive conditions of the New Properties. Unitholders should read the Market Consultant's Report in Appendix 5 to the Circular for further details.

### **3.4.4 General risks attached to investments in real estate and the New Properties**

Unitholders should be aware that there are general risks attached to investments in real estate and the New Properties and should read section 5 of the Circular for further details. We wish to highlight that the annual valuation of the New Properties may fluctuate significantly upwards or downwards as a result of many factors such as occupancy rates, rental rates and/or operating expenses.

### **3.4.5 Manager has discretion**

Unitholders should note that given that the Acquisition is dependent on the satisfaction of certain Conditions, including the obtaining of financing for the Acquisition on such terms as are satisfactory to the Trustee, the Trustee may not proceed with the Acquisition if any of the Conditions shall not have been fulfilled (or waived) prior to the Long Stop Date.

### **3.4.6 Market Consultant's Report**

We note the following from the Market Consultant's Report:

- (a) The majority of new retail supply currently scheduled for completion is being built in Kowloon and many of the new shopping centres forecasted for completion by 2013 are small in scale with a gross floor area of less than 200,000 sq. ft.. Supply of major shopping centres in Hong Kong is expected to fall to an average of 672,000 sq. ft. per annum between 2011 and 2014, with the highest proportion of new centres located in Kowloon, representing 48%.

There will be two major retail developments completed in Kowloon in 2013 including the extension of Ocean Terminal in Tsim Sha Tsui and Kowloon Development's Ngau Chi Wan project. There is one major new development, Hysan Place in Causeway Bay, which is expected to be completed in 2012. In terms of major new supply in the New Territories, a total of 626,000 sq. ft. of retail GFA from three developments in Tseung Kwan O (Area 56, 215,000 sq. ft.), Tuen Mun (Tuen Mun Station, 269,000 sq. ft.) and Ma On Shan (Lok Wo Sha project, 142,000 sq. ft.) are scheduled to come on stream over 2011 to 2013.

- (b) Shopping centre transactions in Hong Kong have been limited over the past five years as many shopping centres in prime locations, regardless of whether they are core or non-core retail areas, are tightly held by their developers and only a handful are generally available for sale.
- (c) According to various company reports and Savills' estimates, 96% of shopping centres in Hong Kong with a gross floor area of over 180,000 sq. ft. are held by developers and REITs respectively, and are not frequently transacted.
- (d) Retail nodes in Hong Kong can be subdivided into core and non-core retail areas. The four core retail areas in Hong Kong are Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, while all other areas are regarded as non-core retail areas. Major characteristics of non-core retail centres are that they often come in the form of large retail podiums in new residential developments, with a strong and often captive primary catchment, offering mainly daily necessities and basic comparison goods with a strong F&B (food and beverage) presence. The ratio of non-core retail completions to total retail completions increased from 31% for the period 1981 to 2000 to 62% for the period 2001 to 2010, revealing that nearly two-third of the centres completed over the past decade have been non-core centres.
- (e) Retail rental growth has shown a relatively high positive correlation with the growth of total retail sales productivity over the past two decades, indicating that retail rents were affected by both the money generated from, and the

provision of, retail space over the period. Retail rents are expected to increase by 17.1% in 2011, before reverting to more moderate growth of 7.6% per annum from 2012 to 2015.

The non-core retail rental trend has a relatively high correlation with the overall market over the past two decades and may see a 14.0% increase in rents in 2011 and a 7.4% per annum rental growth from 2012 to 2015.

For more details of the Market Consultant's Report, please refer to the Market Consultant's Report in Appendix 5 to the Circular.

#### **4. THE 2011 CKH/MANAGER CPT WAIVER**

##### **4.1 Certain Continuing Connected Party Transactions of Fortune REIT**

In 2010, the SFC had granted *inter alia* a waiver (being the Existing CKH/Manager CPT Waiver), subject to certain terms and conditions, from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the following continuing connected party transactions (being the Existing Continuing Connected Party Transactions) between the Fortune REIT Group on the one hand, and the CKH Group or the Manager Group (as the case may be) on the other hand, which may be categorised as being revenue or expenditure in nature:

###### **(i) Revenue Transactions**

The revenue transactions comprise leasing and licensing transactions, details of which are described in section 7.4.1 of the Circular. The details relating to the tenancy and licence agreements in respect of the Existing Properties are set out in Appendix 6 of the Circular and in respect of the New Properties are set out in section 6.7.2, section 9.3 and in Appendix 7 of the Circular.

We note that it was disclosed in the Introduction Listing Document that Savills, Fortune REIT's then principal valuer, had confirmed that the rental/licence fees in respect of the CKH Group Leases/Licences and the Manager Group Leases/Licences of the Existing Properties, which form part of the 2011 Continuing Connected Party Transactions, were at market levels as at their respective agreement dates, and that the other commercial terms in the leases or licences such as tenure, rental deposits and break clauses were on normal commercial terms. In accordance with the Existing CKH/Manager CPT Waiver, Fortune REIT had also obtained an independent valuation from the incumbent principal valuer being Savills or Knight Frank for other subject lettings in respect of the Existing Properties entered into after the issue of the Introduction Listing Document (with the exception of subject lettings entered into on standard rates, which did not require such confirmation under the conditions of the Existing CKH/Manager CPT Waiver).

We further note that in addition to contributing to the income of the Existing Properties, the tenants at the Existing Properties who are Connected Persons are, by and large, very well-known major retailers in Hong Kong. For instance, Park'N Shop (which is part of A.S. Watson Group (HK) Limited) is a leading supermarket chain and Watsons (which is also part of A.S. Watson Group (HK) Limited) is one of the largest personal care retailers in Hong Kong. We understand that the presence of such tenants enhances shopper traffic at the Existing Properties thereby improving the attractiveness of the Existing Properties.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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In addition, we note that Knight Frank, an Independent Property Valuer appointed by the Trustee and Fortune REIT's current principal valuer, had confirmed that the rentals of the subject lettings in respect of the New Properties which form part of the 2011 Continuing Connected Party Transactions were at or above market levels as of their respective tenancy agreement dates and other commercial terms in the tenancies such as tenure, rental deposits and break clauses are on normal commercial terms.

***(ii) Expenditure Transactions***

The expenditure transactions relate to property management, estate management and other operational transactions in respect of Fortune REIT and its assets and operations and comprise property management transactions, third party services, deeds of mutual covenant and back-office support services, details of which are described in section 7.4.2 of the Circular.

We note that the Property Management Agreement was entered into in July 2003 and renewed in August 2008 between the Trustee, the Manager and the Property Manager. We further note that notwithstanding the renewal of the Property Management Agreement in August 2008, the property management fees and lease management fees as well as the percentage commissions for securing tenancies and licences payable to the Property Manager under the Property Management Agreement have not changed since the listing of Fortune REIT on the SGX-ST in August 2003.

We further note that the Property Management Agreement requires the Property Manager to call tenders for term contracts like car park management, security, cleaning, building and mechanical and electrical works, landscaping, pest control and any other contracts deemed necessary for the management of the property.

We note based on the Introduction Listing Document that the above transactions have been subsisting since the listing of Fortune REIT on the Hong Kong Stock Exchange in April 2010. For additional information regarding the Existing CKH/Manager CPT Waiver, please see section 17.2.1 of the Introduction Listing Document.

In 2010, the SFC also granted, a waiver (being the Existing Trustee CPT Waiver), subject to certain terms and conditions from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand, and the Trustee Connected Persons on the other hand. The Manager has confirmed that as at the Latest Practicable Date, such waiver remains in place. Please refer to section 17.2.2 of the Introduction Listing Document for further details of the waiver and the conditions that apply to it.



#### **4.2 Reasons for the new waiver request**

The reasons for the 2011 CKH/Manager CPT Waiver are set out in section 7.3 of the Circular. We wish to highlight the following:

- (i) Fortune REIT has already obtained the Existing CKH/Manager CPT Waiver being a waiver from the SFC in relation to the Existing Continuing Connected Party Transactions between the Fortune REIT Group on the one hand and the CKH Group and/or the Manager Group on the other hand.
- (ii) The nature of the continuing connected party transactions under the 2011 CKH/Manager CPT Waiver will be the same as the Existing Continuing Connected Party Transactions in respect of which the Existing CKH/Manager CPT Waiver was granted.
- (iii) The 2011 CKH/Manager CPT Waiver is being proposed as the Manager considers that it will be unduly burdensome and not in the interests of the Unitholders for Fortune REIT to be subject to strict compliance with the requirements under Chapter 8 of the REIT Code with respect to such transactions in relation to the New Properties, on each and every occasion when they arise.
- (iv) The 2011 CKH/Manager CPT Waiver is subject to Completion and the approval of the SFC. In the event that the EGM Resolution is not approved by the independent Unitholders, the Existing CKH/Manager CPT Waiver will continue to apply for the remainder of its duration.

#### **4.3 Extension or amendments**

The Manager is proposing the 2011 CKH/Manager CPT Waiver so as to (i) take into account the new and/or additional continuing connected party transactions that will arise as a result of the Acquisition; and (ii) replace the Existing CKH/Manager CPT Waiver so that the three-year waiver duration can commence afresh.

We note that the Existing CKH/Manager CPT Waiver granted by the SFC in 2010 was for the period up to 31 December 2012, and such waiver may be extended, on each occasion of such extension, for a period which will expire not later than the third full financial year-end date of Fortune REIT after the approval from Unitholders is obtained. Similarly, the 2011 CKH/Manager CPT Waiver is in respect of a period which commences from the Completion Date and continues until 31 December 2014, and such waiver may be extended, on each occasion of such extension, for a period which shall expire not later than the third full financial year-end date of Fortune REIT after the approval from Unitholders is obtained.

We further note that the conditions for modification of the 2011 CKH/Manager CPT Waiver (as described in section 7.6 of the Circular) are similar to those under the Existing CKH/Manager CPT Waiver. Please refer to section 17.2.1 of the Introduction Listing Document for additional information regarding the Existing CKH/Manager CPT Waiver.



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

**4.4 Annual limits**

We set out below the annual monetary limits under the Existing CKH/Manager CPT Waiver, and compare these against the New Annual Caps under the 2011 CKH/Manager CPT Waiver:

Categories of Continuing Connected Party Transactions	Connected person	Existing annual caps under the Existing CKH/Manager CPT Waiver (HK\$'000)			New Annual Caps under the 2011 CKH/Manager CPT Waiver (HK\$'000)		
		FY2010	FY2011	FY2012	FY2012	FY2013	FY2014
<b>Revenue</b>							
Leasing/ licensing transactions . . . .	CKH Group	140,000	168,000	202,000	275,000	344,000	430,000
Percentage change year-on-year . . . .		NA <sup>(1)</sup>	20.0%	20.2%	36.1% <sup>(2)</sup>	25.1%	25.0%
Utilisation rate <sup>(3)</sup> . . . . .		85.5%	77.2%	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>
Leasing/ licensing transactions . . . .	Manager Group	8,000	9,600	11,500	11,500	13,200	15,200
Percentage change year-on-year . . . .		NA <sup>(1)</sup>	20.0%	19.8%	— <sup>(2)</sup>	14.8%	15.2%
Utilisation rate <sup>(3)</sup> . . . . .		—	—	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>
<b>Expenditure</b>							
Property management arrangements, third party services and other operational transactions . . . .	CKH Group	43,000	52,000	62,000	101,000	136,000	183,000
Percentage change year-on-year . . . .		NA <sup>(1)</sup>	20.9%	19.2%	62.9% <sup>(2)</sup>	34.7%	34.6%
Utilisation rate <sup>(3)</sup> . . . . .		99.0%	75.6%	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>

Notes:

- (1) "NA" denotes not applicable or not available.
- (2) These percentages represent the amount of increases in annual caps for FY2012 under the 2011 CKH/Manager CPT Waiver as compared to the Existing CKH/Manager CPT Waiver (instead of year-on-year increases).
- (3) The utilisation rates are provided by the management of the Manager and represent actual utilisation rates for FY2010 and utilisation rates for FY2011 (on an annualised basis based on transaction amounts for the nine-month period ended 30 September 2011) in respect of Existing Properties only.

Based on information provided by the management of the Manager, we note the following:

- (i) In respect of leasing/licensing transactions with the CKH Group for the Existing Properties, based on the existing annual caps under the Existing CKH/Manager CPT Waiver, the historical utilisation rate for FY2010 was 85.5% and the utilisation rate for FY2011 (on an annualised basis based on transaction amounts for the nine-month period ended 30 September 2011) is 77.2%. Assuming transactions in respect of the New Properties on the same annualised basis for FY2011 were included, the annualised utilisation rate for FY2011 would have been very high at 96.7%.
- (ii) The Manager Group does not currently have any lease/license of premises at the portfolio of properties of Fortune REIT.
- (iii) In respect of property management arrangements, third party services and other operational transactions with the CKH Group for the Existing Properties, based on the existing annual caps under the Existing CKH/Manager CPT Waiver, the historical utilisation rate for FY2010 was 99.0% and the utilisation rate for FY2011 (on an annualised basis based on transaction amounts for the nine-month period

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

ended 30 September 2011) is 75.6%. Assuming transactions in respect of the New Properties on the same annualised basis for FY2011 were included, the annualised utilisation rate for FY2011 would have exceeded the existing annual cap at 100.4%.

- (iv) Under the Existing CKH/Manager CPT Waiver, the year-on-year increase in annual caps in respect of leasing/licensing transactions with the CKH Group, leasing/licensing transactions with the Manager Group as well as property management arrangements, third party services and other operational transactions with the CKH Group is approximately 20%.
- (v) Under the 2011 CKH/Manager CPT Waiver, the proposed year-on-year increase in the New Annual Caps in respect of leasing/licensing transactions with the CKH Group has been determined by applying a 25% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 25% increment factor has been applied after taking into account the inflation, with an appropriate buffer for contingencies, possible increase in the number of premises under the CKH Group Leases/Licences during the Initial CPT Waiver Period. In determining the appropriate level of the New Annual Caps, the Manager has also taken into consideration the Connected Persons Tenancy and Licence Agreements in respect of the New Properties as described in section 6.7.2, section 9.3 and Appendix 7 of the Circular.
- (vi) Under the 2011 CKH/Manager CPT Waiver, the proposed annual cap in respect of leasing/licensing transactions with the CKH Group for FY2012 has been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition (i.e., including the Related Tenancy and Licence Agreements), with an appropriate buffer for contingencies such as changes in rental or other market conditions.

The increase of the annual cap from HK\$202 million for FY2012 under the Existing CKH/Manager CPT Waiver to HK\$275 million for FY2012 under the 2011 CKH/Manager CPT Waiver is mainly due to the new CKH Group Leases/Licences to be taken up at the Belvedere Garden Property and the Provident Centre Property upon the completion of the Acquisition. In addition, the increment has also taken into account the inflation, together with an appropriate buffer for contingencies (e.g. changes in rental or other market conditions) and possible additional leasing or licensing transactions with CKH Group tenants at the Existing Properties. We note however that the aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements is estimated at HK\$97.4 million (which comprises 0.94% of the audited NAV/NTA of Fortune REIT as at 31 December 2010) under section 9.3 and Appendix 7 of the Circular. The management of the Manager has clarified that such amount is computed based on the aggregate rental and licence fees for the entire tenor of the respective Related Tenancy and Licence Agreements and hence cannot be compared to the proposed increment for FY2012 under the 2011 CKH/Manager CPT Waiver which is on an annual basis.

- (vii) Under the 2011 CKH/Manager CPT Waiver, the proposed year-on-year increase in the New Annual Caps in respect of leasing/licensing transactions with the Manager Group is approximately 15% and in respect of FY2012, the same annual cap under the Existing CKH/Manager CPT Waiver is maintained. The Manager Group does not currently have any lease/licensee of premises at the portfolio of properties of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Fortune REIT. However, it is possible that such leases/licenses may be entered into at some time during the proposed waiver period including the Initial CPT Waiver Period. The proposed annual caps have been determined after taking into account the inflation, together with an appropriate buffer for contingencies, for instance, the change in rental or other market conditions and possible additional leasing or licensing transactions with the Manager Group during the relevant period. Although there has been no previous leasing/licensing transaction with the Manager Group, the proposed annual caps could be substantially utilized once transactions are entered into with the Manager Group.

- (viii) Under the 2011 CKH/Manager CPT Waiver, the proposed year-on-year increase in the New Annual Caps in respect of property management arrangements, third party services and other operational transactions with the CKH Group is approximately 35%.

The proposed annual cap for FY2012 has been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition, with an appropriate buffer for contingencies.

The increase of the annual cap from HK\$62 million for FY2012 under the Existing CKH/Manager CPT Waiver to HK\$101 million for FY2012 under the 2011 CKH/Manager CPT Waiver is mainly taking into account the new operating expenses from the Belvedere Garden Property and the Provident Centre Property upon completion of the Acquisition. The increment is also attributable to account for inflation, possible increase in costs and wages, together with an appropriate buffer for contingencies, for instance, possible additional marketing services fees as a result of additional leasing activities, additional property management related services and additional landlord's fitting out provisions, or building facilities maintenance and improvement works being carried out by the CKH Group during the relevant period.

The proposed annual caps for each of FY2013 and FY2014 have been determined by applying a 35% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 35% increment factor has been applied after taking into account: (i) the general economic environment in Hong Kong including the inflation, possible increase in costs and wages and specifically, the anticipated increase in management expenses; and (ii) the resulting anticipated increase in the property management fees and marketing service fees payable by Fortune REIT to the Property Manager, during the Initial CPT Waiver Period.

We wish to highlight that the Property Management Agreement will expire on 11 August 2013. The Manager has informed us that as at the Latest Practicable Date, there has not been any discussion on whether the Property Management Agreement will be further extended and if extended, whether on the same terms and conditions. In proposing the New Annual Caps for FY2013 and FY2014, we understand that the Manager has assumed that the existing terms of the Property Management Agreement will continue to apply.

- (ix) In proposing the appropriate New Annual Caps (in particular in determining the revision in annual caps in respect of FY2012), the Manager has considered *inter alia* historical actual transaction values, historical utilisation rates under the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Existing CKH/Manager CPT Waiver, terms in the various tenancy and licence agreements entered or to be entered into between the Property Companies with the CKH Group and the Manager Group (including agreements in respect of the New Properties details of which are set out in section 6.7.2, section 9.3 and Appendix 7 of the Circular), rental trends, market rates and other relevant information in order to ensure that the New Annual Caps will provide sufficient flexibility.

Having considered the above, in particular the basis on which the New Annual Caps is proposed, we are of the view that the New Annual Caps are fair and reasonable in so far as Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole are concerned. However, as the New Annual Caps relate to future events and are based on assumptions which may or may not remain valid for the entire period up to 31 December 2014, consequently, we express no opinion as to how closely the actual amount to be incurred under the 2011 Continuing Connected Party Transactions will correspond with the New Annual Caps.

### **4.5 Review, disclosures and other control measures**

In arriving at our opinion, we consider the following as set out in the Introduction Listing Document and section 7.8 of the Circular:

#### ***(i) Internal controls***

The Manager has established an internal control system intended to ensure that connected party transactions between Fortune REIT and its connected persons are monitored and that they are undertaken on terms in compliance with the REIT Code.

As a general rule, the Manager must demonstrate to the Audit Committee that all connected party transactions satisfy the above criteria which may entail (where practicable) obtaining quotations from parties unrelated to the Manager or obtaining one or more valuation letters from independent professional valuers.

The Manager shall investigate and monitor all transactions by Fortune REIT in order to determine whether such transactions are connected party transactions. Furthermore, the Manager shall maintain a register to record all connected party transactions which are entered into by Fortune REIT and the bases, including any quotations from unrelated party and/or independent valuations obtained to support such bases, on which they are entered into. The Manager shall also incorporate into its internal audit plan a review of all connected party transactions entered into by Fortune REIT.

With respect to leases of real estate by members of the Fortune REIT Group, transactions shall be evaluated for these purposes by reference to the value of rental for the term of the lease.

#### ***(ii) Disclosure in interim and annual reports***

Details of the relevant continuing connected party transactions shall be disclosed in Fortune REIT's interim and annual reports as required under paragraph 8.14 of the REIT Code.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS</b>
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***(iii) Review by auditors***

In respect of each relevant financial year, the Manager will engage and agree with the auditors of Fortune REIT to perform certain review procedures on continuing connected party transactions. The auditors will then report to the Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such continuing connected party transactions:

- (a) have received the approval of the Board (including its independent non-executive Directors);
- (b) are in accordance with the pricing policies of Fortune REIT where applicable;
- (c) have been entered into in accordance with the terms of the agreements (if any) governing the transactions; and
- (d) the total value in respect of which has not exceeded the respective annual cap amount (where applicable).

***(iv) Review by independent non-executive directors of the Manager***

The independent non-executive Directors shall review the relevant continuing connected party transactions annually and confirm in Fortune REIT's annual report for the relevant financial year that such transactions have been entered into:

- (a) in the ordinary and usual course of business of Fortune REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Fortune REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the independent Unitholders, as well as the Unitholders as a whole.

***(v) Auditors' access to books and records***

The Manager shall allow, and shall procure the counterparty to the relevant connected party transactions to allow, the auditors of Fortune REIT sufficient access to their records for the purpose of reporting on the transactions.

***(vi) Notification to the SFC***

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out above.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

We note in Fortune REIT's latest annual report for FY2010 that:

- (i) the independent non-executive Directors had given the confirmation as described in paragraph (iv) above; and
- (ii) Messrs. Deloitte Touche Tohmatsu, auditors of Fortune REIT, was engaged to report on Fortune REIT Group's continuing connected transactions (in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditors' Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants), and the auditors had issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services as disclosed by Fortune REIT Group in its annual report.

The Manager has further confirmed to us that the system, controls and procedures described above remain unchanged, are adequate, and will continue to apply to the 2011 Continuing Connected Party Transactions under the 2011 CKH/Manager CPT Waiver.

### 5. RESTRICTIONS ON VOTING

We note that each of Cheung Kong, HWL and ARA has undertaken that they will abstain, and will also procure that each member of the CKH Group and their respective associates, each member of the HWL Group and their respective associates, and each member of the Manager Group and their respective associates (as the case may be) abstain, from voting on the EGM Resolution.

### 6. OUR OPINION

Based on the considerations set out above in this letter and subject to the qualifications and assumptions herein, we are of the view that:

- (i) the Transaction is (a) on normal commercial terms and not prejudicial to Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 9 of the Singapore Listing Manual; and (b) at arm's length, on normal commercial terms and fair and reasonable and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole in accordance with Chapter 8 of the REIT Code; and
- (ii) the 2011 CKH/Manager CPT Waiver and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole; and the 2011 Continuing Connected Party Transactions are entered into (a) in the ordinary and usual course of business of Fortune REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable, not prejudicial to, and in the interests of Fortune REIT, the independent Unitholders, as well as the Unitholders as a whole.

Accordingly, we advise the Independent Board Committee and the Audit Committee to recommend to the independent Unitholders to vote in favour of the EGM Resolution to be proposed at the EGM.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS**

This opinion is addressed to the Independent Board Committee, the Audit Committee, the independent Unitholders and the Trustee for their sole benefit, in connection with and for the purpose of their consideration of the Transaction, the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions. Any statement or recommendation made by the Independent Board Committee and the Audit Committee in respect of the Transaction, the 2011 CKH/Manager CPT Waiver and the 2011 Continuing Connected Party Transactions shall remain their sole responsibility. Our opinion does not and cannot take into account future circumstances, including market, economic, industry, monetary and other conditions after the Latest Practicable Date as these are factors beyond the ambit of our review.

This letter is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully  
For and on behalf of

**CIMB BANK BERHAD, SINGAPORE BRANCH**

**CIMB SECURITIES (HK) LIMITED**

(in its capacity as  
the independent financial adviser  
for the purposes of Chapter 9  
of the Singapore Listing Manual)

(in its capacity as  
the independent financial adviser  
for the purposes of paragraph 10.10(p)  
of the REIT Code)

**MAH KAH LOON**  
*HEAD*  
*CORPORATE FINANCE*

**TAN CHER TING**  
*SENIOR VICE PRESIDENT*  
*CORPORATE FINANCE*

**ALEX LAU**  
*HEAD*  
*CORPORATE FINANCE*

**HEIDI CHENG**  
*DEPUTY HEAD*  
*CORPORATE FINANCE*



The financial information of Fortune REIT for the past three financial years has been published in the reports as follows:

- (1) the financial information of Fortune REIT for the year ended 31 December 2010 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2010 published on 18 March 2011, from pages 80 to 133;
- (2) the financial information of Fortune REIT for the year ended 31 December 2009 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2009 published on 9 March 2010, from pages 64 to 118;
- (3) the financial information of Fortune REIT for the year ended 31 December 2008 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2008 published on 24 March 2009, from pages 48 to 87;
- (4) the unaudited financial information of Fortune REIT for the six months ended 30 June 2011 is disclosed in the interim report of Fortune REIT for the six months ended 30 June 2011 published on 19 August 2011, from pages 24 to 49; and
- (5) the unaudited financial information of Fortune REIT for the nine months ended 30 September 2011 is disclosed in the result announcement of Fortune REIT for the nine months ended 30 September 2011 published on 11 November 2011.

The annual reports of Fortune REIT for the years ended 31 December 2008 and 31 December 2009 have been published on the website of SGX-ST ([www.sgx.com](http://www.sgx.com)) and the website of Fortune REIT ([www.fortunereit.com](http://www.fortunereit.com)).

The annual report of Fortune REIT for the year ended 31 December 2010, the interim report of Fortune REIT for the six months ended 30 June 2011 and the results announcement of Fortune REIT for the nine months ended 30 September 2011 have been published on the website of SGX-ST ([www.sgx.com](http://www.sgx.com)), the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of Fortune REIT ([www.fortunereit.com](http://www.fortunereit.com)).

*The following is the text of a report, prepared for the purpose of inclusion in this Circular, from Deloitte Touche Tohmatsu, certified public accountants.*



德勤·關黃陳方會計師行  
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太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

28 December 2011

The Directors  
ARA Asset Management (Fortune) Limited  
(as manager of Fortune Real Estate Investment Trust)

HSBC Institutional Trust Services (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)

Dear Sirs,

We set out below our report on the combined financial information set out in sections I to III (the "**Financial Information**") of Recoup Investments Limited ("**Recoup**") and its subsidiaries (and 35% of equity interest in Quebostar Limited that will be acquired), Caratal Company Limited, Ling Fung Development Limited and Wilmington Land Company Limited (hereinafter collectively referred to as the "**Companies**") for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 (hereinafter collectively referred to as the "**Relevant Periods**") for inclusion in the circular of Fortune Real Estate Investment Trust ("**Fortune REIT**") dated 28 December 2011 (the "**Circular**") in connection with the proposed acquisition by Fortune REIT of certain portion of Belvedere Garden Property ("**Property**") through the acquisition of 100% of equity interest in Recoup together with the remaining 15% and 20% of equity interest in Quebostar Limited not already owned by Recoup from non-controlling interests, Cheung Kong Investment Company Limited and Hollingshead Properties Limited, respectively.

Cheung Kong Investment Company Limited is a subsidiary of Cheung Kong (Holdings) Limited ("**CKH**"). CKH and its associate, Hutchison Whampoa Limited ("**HWL**"), are significant unitholder and unitholder of Fortune REIT, respectively.

Pursuant to a restructuring to be carried out prior to the completion of the proposed acquisition, Recoup would become the holding company of Caratal Company Limited, Ling Fung Development Limited and Wilmington Land Company Limited. The Companies are indirect wholly-owned subsidiaries of HWL, except for Quebostar Limited which is 65% owned throughout the Relevant Periods. Particulars of the Companies at the date of this report are as follows:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Issued and fully paid up ordinary share capital</u>	<u>Principal activities</u>
Beachcross Investments Limited	British Virgin Islands ("B.V.I.")	1 share of US\$1	Investment holding
Bysean Limited	Hong Kong	2 shares of HK\$1 each	Property investment
Bysky Limited	Hong Kong	2 shares of HK\$1 each	Property investment
Caratal Company Limited	Hong Kong	1,000 shares of HK\$100 each	Dormant
Fullforce Limited	Hong Kong	2 shares of HK\$1 each	Property owning and investment
Giftmyth Investments Limited	B.V.I.	1 share of US\$1	Investment holding
Ling Fung Development Limited	Hong Kong	100 shares of HK\$100 each	Property owning
Quebo Limited	Hong Kong	2 shares of HK\$1 each	Investment holding
Quebostar Limited	Hong Kong	10,000 shares of HK\$1 each	Property owning and investment
Quintoll Investments Limited	B.V.I.	1 share of US\$1	Investment holding
Recoup Investments Limited	B.V.I.	1 share of US\$1	Investment holding
Wilmington Land Company Limited	Hong Kong	35,000 shares of HK\$10 each	Property owning

The audited statutory financial statements of Bysean Limited, Bysky Limited, Caratal Company Limited, Fullforce Limited, Quebo Limited, Quebostar Limited, Ling Fung Development Limited and Wilmington Land Company Limited for each of the three years ended 31 December 2010 were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by PricewaterhouseCoopers, Hong Kong. No audited financial statements have been prepared for these companies for the six months ended 30 June 2011. However, for the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the management accounts (the "Management Accounts") of these companies for the six months ended 30 June 2011 using materiality determined based on the combined financial information of the Companies as a whole for the period.

No audited financial statements have been prepared for Beachcross Investments Limited, Giftmyth Investments Limited, Quintoll Investments Limited and Recoup Investments Limited since they are incorporated in the B.V.I. and there are no statutory requirements to do so. However, for the purpose of this report, we have reviewed the relevant transactions of these companies for the Relevant Periods and carried out such procedures as we consider necessary for inclusion of the financial information related to these companies.

We have examined the audited statutory financial statements and Management Accounts of the Companies for the Relevant Periods ("**Underlying Financial Statements**"). Our examination was made in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Companies for the Relevant Periods and the combined statements of financial position of the Companies as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011, have been prepared based on the Underlying Financial Statements on the basis set out in note 1 to Section I below after making such adjustments as we consider appropriate.

The Underlying Financial Statements are the responsibility of the directors of the Companies who approved their issuance. The Manager of Fortune REIT is responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements together with the notes thereon, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis set out in note 1 to Section I, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the combined state of affairs of the Companies as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011 and of the combined profit and cash flows of the Companies for the Relevant Periods.

The comparative combined statement of comprehensive income, combined statement of cash flows and combined statement of changes in equity for the six months ended 30 June 2010 together with the notes thereon (the "**30 June 2010 Financial Information**") have been prepared based on the management accounts of the Companies for the same period (the "**30 June 2010 Management Accounts**"), which were prepared by the Companies solely for the purpose of this report, on the basis set out in note 1 to Section I below after making such adjustments as we consider appropriate. We have reviewed the 30 June 2010 Management Accounts in accordance with the Hong Kong Standard on Review Engagements 2400 "Engagement to Review Financial Statements" issued by the HKICPA using materiality determined based on the combined financial information of the Companies as a whole for the six months ended 30 June 2010. Our review of the 30 June 2010 Management Accounts consists of making enquiries, primarily of persons responsible for financial and accounting matters of the Companies, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

## (I) FINANCIAL INFORMATION

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue . . . . .	5	65,866	68,969	72,066	35,227	37,928
Property operating expenses . . . . .	6	(27,562)	(20,748)	(21,967)	(10,417)	(10,525)
<b>Net property income . . . . .</b>		<b>38,304</b>	<b>48,221</b>	<b>50,099</b>	<b>24,810</b>	<b>27,403</b>
Finance costs . . . . .	7	(6,901)	(8,561)	(8,570)	(4,292)	(2,331)
<b>Profit before taxation . . . . .</b>		<b>31,403</b>	<b>39,660</b>	<b>41,529</b>	<b>20,518</b>	<b>25,072</b>
Income tax expense . . . . .	8	(5,900)	(6,573)	(6,861)	(3,390)	(4,139)
<b>Profit and total comprehensive income for the year/period attributable to owners of the Companies . . . . .</b>		<b>25,503</b>	<b>33,087</b>	<b>34,668</b>	<b>17,128</b>	<b>20,933</b>

## COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December			At 30 June
		2008	2009	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Completed properties for sale . . . . .	11	<u>695,632</u>	<u>695,632</u>	<u>695,632</u>	<u>695,632</u>
<b>Current assets</b>					
Trade and other receivables . . . . .	12	3,061	2,493	2,446	2,646
Amounts due from fellow subsidiaries . . . . .	13	1,118	597	3	208
Amount due from an intermediate holding company . . . . .	13	28,927	27,015	29,217	44,137
Bank balances and cash . . . . .	14	<u>2,641</u>	<u>13,590</u>	<u>29,344</u>	<u>38,496</u>
<b>Total current assets</b> . . . . .		<u>35,747</u>	<u>43,695</u>	<u>61,010</u>	<u>85,487</u>
<b>Current liabilities</b>					
Other payables . . . . .	15	16,005	15,912	16,851	17,892
Loans from fellow subsidiaries . . . . .	16	118,350	118,350	118,350	118,350
Amount due to an intermediate holding company . . . . .	13	4,145	730	1,019	1,631
Amounts due to fellow subsidiaries . . . . .	13	367,703	346,336	327,842	327,232
Provision for taxation . . . . .		<u>2,294</u>	<u>2,030</u>	<u>1,943</u>	<u>4,444</u>
<b>Total current liabilities</b> . . . . .		<u>508,497</u>	<u>483,358</u>	<u>466,005</u>	<u>469,549</u>
<b>Net current liabilities</b> . . . . .		<u>472,750</u>	<u>439,663</u>	<u>404,995</u>	<u>384,062</u>
<b>Net assets</b> . . . . .		<u>222,882</u>	<u>255,969</u>	<u>290,637</u>	<u>311,570</u>
<b>CAPITAL AND RESERVE</b>					
Share capital . . . . .	17	460	460	460	460
Retained profits . . . . .		<u>222,422</u>	<u>255,509</u>	<u>290,177</u>	<u>311,110</u>
<b>Total equity</b> . . . . .		<u>222,882</u>	<u>255,969</u>	<u>290,637</u>	<u>311,570</u>

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2008 .....	460	201,819	202,279
Profit and total comprehensive income for the year . . . .	—	25,503	25,503
Dividends paid (Note 11) .....	—	(4,900)	(4,900)
Balance as at 31 December 2008 .....	460	222,422	222,882
Profit and total comprehensive income for the year . . . .	—	33,087	33,087
Balance as at 31 December 2009 .....	460	255,509	255,969
Profit and total comprehensive income for the year . . . .	—	34,668	34,668
Balance as at 31 December 2010 .....	460	290,177	290,637
Profit and total comprehensive income for the period . .	—	20,933	20,933
Balance as at 30 June 2011 .....	460	311,110	311,570
<b>For the six months ended 30 June 2010 (Unaudited)</b>			
Balance as at 1 January 2010 .....	460	255,509	255,969
Profit and total comprehensive income for the period . .	—	17,128	17,128
Balance as at 30 June 2010 .....	460	272,637	273,097



## COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<b>Operating activities</b> . . . . .					
Profit before taxation . . . . .	31,403	39,660	41,529	20,518	25,072
Adjustments for: . . . . .					
Interest income . . . . .	(239)	(281)	(18)	(18)	(73)
Finance costs . . . . .	6,901	8,561	8,570	4,292	2,331
<b>Operating cash flows before movements in working capital</b> . . . . .	38,065	47,940	50,081	24,792	27,330
(Increase) decrease in trade and other receivables . . . . .	(419)	568	47	38	(200)
Increase (decrease) in other payables . . . . .	1,872	(93)	939	960	1,041
Decrease (increase) in amount due from an intermediate holding company . . . . .	36	1,912	(2,202)	(12,120)	(14,920)
Increase (decrease) in amount due to an intermediate holding company . . . . .	1,575	(3,415)	289	(401)	612
(Increase) decrease in amounts due from fellow subsidiaries . . . . .	(907)	521	594	526	(205)
Decrease in amounts due to fellow subsidiaries . . . . .	(30,469)	(29,928)	(27,064)	(4,275)	(2,941)
<b>Cash generated from operations</b> . . . . .	9,753	17,505	22,684	9,520	10,717
Income tax paid . . . . .	(5,239)	(6,837)	(6,948)	(1,507)	(1,638)
<b>Net cash from operating activities</b> . . . . .	4,514	10,668	15,736	8,013	9,079
<b>Cash from investing activities</b>					
Interest received . . . . .	239	281	18	18	73
<b>Cash used in financing activities</b>					
Dividends paid . . . . .	(4,900)	—	—	—	—
<b>Net (decrease) increase in cash and cash equivalents</b> . . . . .	(147)	10,949	15,754	8,031	9,152
<b>Cash and cash equivalents at beginning of year/period</b> . . . . .	2,788	2,641	13,590	13,590	29,344
<b>Cash and cash equivalents at end of year/period, represented by bank balances and cash</b> . . . . .	2,641	13,590	29,344	21,621	38,496

## NOTES TO THE FINANCIAL INFORMATION

## 1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to a restructuring to be carried out prior to the completion of the proposed acquisition by Fortune REIT of the Property through the acquisition of the entire equity interest in Recoup and the remaining 35% of the equity interest in Quebostar Limited not already owned by Recoup from non-controlling interests (the "Acquisition"), the entire equity interests in Caratal Company Limited, Ling Fung Development Limited and Wilmington Land Company Limited, all of which are currently subsidiaries of HWL, will be transferred to Recoup ("Restructuring").

For the purpose of this report, the Financial Information has been prepared on a combined basis as if the Restructuring had been completed on 1 January 2007 and the group structure after the Acquisition as described above had been in existence throughout the Relevant Periods. Accordingly, the combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity include the results and cash flows of the Companies throughout the Relevant Periods, and the combined statements of financial position as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011 have been prepared to include the assets and liabilities of the Companies as at the end of each reporting period.

The Financial Information has been prepared on a going concern basis because Hutchison Whampoa Properties Limited ("HWPL"), an intermediate holding company, has agreed to provide adequate funds to enable the Companies to meet in full their financial obligations as they fall due up to the completion of the Acquisition and Fortune REIT has agreed to provide adequate funds to enable the Companies to meet in full their financial obligations as they fall due for the foreseeable future after the completion of the Acquisition.

The functional currency (the currency of the primary economic environment in which the entity operates) of the Companies is Hong Kong dollars.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Companies have applied a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs") and Interpretations ("IFRICs") issued by the International Accounting Standards Board ("IASB") (hereinafter collectively referred to as "new IFRSs") which are effective for the financial year beginning on 1 January 2011 throughout the Relevant Periods.

At the date of this report, the IASB has issued the following new IFRSs which are not yet effective. The Companies have not early adopted these new IFRSs in the preparation of the Financial Information.

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
IFRS 7 (Amendments)	Disclosures — offsetting Financial Assets and Financial Liabilities <sup>2</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>3</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>5</sup> Effective for annual period beginning on or after 1 January 2014

The directors of the Companies anticipate that the application of these new IFRSs will have no material impact on the financial statements of the Companies.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to IFRSs issued by IASB and include the relevant disclosure requirements set out in the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited.

#### (a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities, net of discounts.

- Rental income under operating lease, except for contingent rentals, is recognised in the profit or loss on a straight-line basis over the term of the relevant lease.
- Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on a receipt basis. No contingent rentals are recognised if there are uncertainties due to the possible return of amount received.
- Charge-out collections, which consists of payment in respect of the operation of the properties which are payable by the tenants and licensees, are recognised as income when the services and facilities are provided.
- Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### (b) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sale proceeds less estimated selling expenses.

Cost of properties includes land cost, construction cost, borrowing costs capitalised and other direct development expenditure.

#### (c) Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when the Companies become a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value.

##### Financial assets

Financial assets categorised as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables which includes trade and other receivables, amounts due from fellow subsidiaries and an intermediate holding company, bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Interest income is recognised on an effective interest basis.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for receivables could include past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When such receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by the Companies are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Companies after deducting all of their liabilities.

Financial liabilities (including other payables, amounts due to fellow subsidiaries, an intermediate holding company and loans from fellow subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Companies has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**(d) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**(e) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(f) Taxation**

Income tax expense represents the tax currently payable.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Companies' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**4. SEGMENT INFORMATION**

The application of IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Companies that are regularly reviewed by the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

The Companies own properties which comprise certain portion of Belvedere Garden Property throughout the Relevant Periods. The properties are located in Hong Kong and were developed by the Companies for sale in the ordinary course of business. The properties constitute an operating segment of the Companies. Revenue and net property income of the properties is the measure reported to the directors of the Companies for the purposes of resource allocation and performance assessment. The management of the Companies considers that the properties held by the Companies have similar economic characteristics with similar nature. The cost structure and the economic environment in which they operate are also similar. Therefore, the management of the Companies concluded that the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

The major customers attributable to more than 10% of the Group's revenue are derived from the rental income and charge-out collections from fellow subsidiaries as disclosed in note 21.

**5. REVENUE**

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Rental income . . . . .	53,006	55,927	58,865	28,700	30,666
Charge-out collections . . . . .	11,759	11,873	11,775	5,878	6,239
Other income . . . . .	1,101	1,169	1,426	649	1,023
Total . . . . .	<u>65,866</u>	<u>68,969</u>	<u>72,066</u>	<u>35,227</u>	<u>37,928</u>

Rental income is derived from unsold properties developed by the Companies in prior years whereby they are intended for sale in the ordinary course of business.

Rental income include contingent rents of HK\$330,000, HK\$1,014,000, HK\$1,074,000, HK\$423,000 (unaudited) and HK\$551,000 for the year/period ended 31 December 2008, 31 December 2009, 31 December 2010, 30 June 2010 and 30 June 2011, respectively.

## 6. PROPERTY OPERATING EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Advertising and promotion . . . . .	769	835	1,093	503	301
Auditor's remuneration (note a) . .	48	41	35	23	21
Building management expenses . . .	7,045	6,102	6,205	2,791	3,124
Car park operating expenses . . . . .	313	293	292	145	151
Directors' remuneration (note b) . .	—	—	—	—	—
Government rents and rates . . . . .	803	809	846	410	448
Leasing commission . . . . .	1,275	1,407	1,570	855	644
Legal and professional fee . . . . .	265	100	200	179	13
Management service fee . . . . .	7,032	5,899	6,780	3,588	3,462
Other operating expenses . . . . .	5,612	795	610	274	356
Utilities . . . . .	4,400	4,467	4,336	1,649	2,005
Total . . . . .	<u>27,562</u>	<u>20,748</u>	<u>21,967</u>	<u>10,417</u>	<u>10,525</u>

## Notes:

- a) Auditor's remuneration of HK\$159,000, HK\$150,000, HK\$136,000, nil (unaudited), nil for the year/period ended 31 December 2008, 31 December 2009, 31 December 2010, 30 June 2010 and 30 June 2011, respectively, were borne by an intermediate holding company, HWPL.
- b) All directors of the Companies received remuneration from HWPL for their services provided to the group of companies headed by HWPL, which include the Companies. No apportionment of such remuneration for services rendered by these directors in their capacity as directors of the Companies has been made as the directors are of the opinion that the amount involved is insignificant.

## 7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest expense on:					
Loans from fellow subsidiaries . . .	<u>6,901</u>	<u>8,561</u>	<u>8,570</u>	<u>4,292</u>	<u>2,331</u>

**8. INCOME TAX EXPENSE**

The Companies are subject to Hong Kong Profits Tax at 16.5% for the Relevant Periods.

The tax charge for the year/period can be reconciled to the profit per the combined statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation . . . . .	31,403	39,660	41,529	20,518	25,072
Tax at the applicable income tax rate . . . . .	5,182	6,544	6,852	3,386	4,137
Tax effect of expenses not deductible for tax purpose. . . . .	829	—	2	—	—
Tax effect of income not taxable for tax purpose . . . . .	(11)	—	(1)	—	(1)
(Over) under provision in prior years . . . . .	(100)	25	4	—	—
Others . . . . .	—	4	4	4	3
Total . . . . .	<u>5,900</u>	<u>6,573</u>	<u>6,861</u>	<u>3,390</u>	<u>4,139</u>

No provision of deferred tax has been made in the Financial Information as there are no significant temporary differences at the end of each reporting period.

**9. EARNINGS PER SHARE**

Earnings per share of the Companies for the Relevant Periods are not presented as such information is not considered meaningful in the context of this report.

**10. DIVIDEND**

No dividend has been declared by the Companies during the Relevant Periods except for the interim dividends declared and paid by Quebostar Limited during the year ended 31 December 2008. The amounts paid to shareholders other than the Companies are as follows:

	HK\$'000
First interim, paid of HK\$500 per ordinary share . . . . .	1,750
Second interim, paid of HK\$450 per ordinary share . . . . .	1,575
Third interim, paid of HK\$450 per ordinary share . . . . .	1,575
	<u>4,900</u>

**11. COMPLETED PROPERTIES FOR SALE**

These properties, being portion of Belvedere Garden Property, were developed by the Companies in previous years for sale purpose. In the opinion of the management of the Companies, these properties were not expected to be sold within twelve months after the end of the respective period and therefore are classified as non-current assets. Subsequent to 30 June 2011, the management of the Companies has determined that the properties would not be sold and shall be held as investment properties after the successful completion of the Acquisition of the Companies by Fortune REIT.



## 12. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables . . . . .	1,290	753	820	994
Other receivables . . . . .	1,771	1,740	1,626	1,652
Total . . . . .	<u>3,061</u>	<u>2,493</u>	<u>2,446</u>	<u>2,646</u>

Aging analysis of the Companies' trade receivables presented based on the invoice date at the end of the reporting date is as follows:

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 — 30 days . . . . .	1,135	634	655	862
31 — 90 days . . . . .	79	4	42	38
Over 90 days . . . . .	76	115	123	94
	<u>1,290</u>	<u>753</u>	<u>820</u>	<u>994</u>

There is no credit period given to tenants on billing for renting of properties.

All the trade receivables outstanding at the reporting period are past due at the reporting dates for which the Companies have not provided for doubtful debts as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Companies do not hold any collateral over these balances. The average age of these receivables for the Relevant Periods is 30 days.

In determining the recoverability of a trade receivable, the Companies review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants.

All trade and other receivables are denominated in Hong Kong dollars.

## 13. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES AND AN INTERMEDIATE HOLDING COMPANY

The amounts due from (to) fellow subsidiaries and an intermediate holding company are unsecured, interest-free and repayable on demand. The collections from customers of the Companies are received by the intermediate holding company and recorded by the Companies as amounts due from an intermediate holding company.

Upon the completion of the Acquisition, amount due from an intermediate holding company of approximately HK\$44 million and amount due to fellow subsidiaries of HK\$327 million will be assigned to Fortune REIT.

## 14. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Companies and short-term bank deposits with an original maturity of three months or less.

Bank balances are interest bearing at the respective saving deposits rate in Hong Kong and the effective interest rate of the Companies' bank balances ranged from 0.15% to 3.25% per annum for year ended 31 December 2008, 0.01% to 0.1% per annum for year ended 31 December 2009, 0.01% to 0.05% per annum for year ended 31 December 2010 and 0.01% to 0.1% per annum for the six months ended 30 June 2011.

## 15. OTHER PAYABLES

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tenant's deposits. . . . .				
— Outside parties. . . . .	14,521	14,512	15,298	15,945
— Related parties (note 21) . . . . .	14	14	25	184
	<u>14,535</u>	<u>14,526</u>	<u>15,323</u>	<u>16,129</u>
Other payables and accruals . . . . .	1,470	1,386	1,528	1,763
Total. . . . .	<u>16,005</u>	<u>15,912</u>	<u>16,851</u>	<u>17,892</u>

Other payables comprise deposits refundable to tenants upon cancellation of operating lease arrangements and amounts outstanding for ongoing operating costs. The tenants' deposits are refundable to tenants within 30 days upon the termination of the tenancy agreement.

The tenant's deposits which are to be settled after twelve months from the end of the reporting periods based on the lease term, amounted to HK\$8,251,000, HK\$7,234,000, HK\$8,412,000, HK\$10,216,000 as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011, respectively.

## 16. LOANS FROM FELLOW SUBSIDIARIES

The loans from fellow subsidiaries are unsecured, repayable on demand and bear floating interest at rates ranging from 5.44% to 7.25% per annum for year ended 31 December 2008, 7.18% to 7.33% per annum for year ended 31 December 2009, 7.16% to 7.36% per annum for the year ended 31 December 2010 and 2.97% to 4.99% per annum for the six months ended 30 June 2011. In the opinion of the management of the Companies, the fellow subsidiaries would not demand repayment of the outstanding loan amounts within the next twelve months from the end of each of the reporting periods.

Upon the completion of the Acquisition, the loans from fellow subsidiaries will be assigned to Fortune REIT.

## 17. SHARE CAPITAL

For the purpose of this report, the share capital as at the end of respective reporting periods represents the aggregate of the nominal value of the share capital of Recoup (and 35% of equity interest in Quebostar Limited that will be acquired), Caratal Company Limited, Ling Fung Development Limited and Wilmington Land Company Limited.

## 18. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The objectives of the management of the Companies when managing capital are to safeguard the Companies' ability as a going concern in order to provide returns for shareholders and to support future development of business through optimisation of debt and equity balances. The Companies' strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Companies consists of loans from fellow subsidiaries, cash and cash equivalents and total equity of the Companies, comprising issued share capital and retained profits.

The Companies review the capital structure periodically and manages its overall structure through new share issues and drawdown of new borrowings and repayments of existing borrowings.

## 19. FINANCIAL INSTRUMENTS

a. *Categories of financial instruments*

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Trade and other receivables . . . . .	3,061	2,493	2,446	2,646
Amount due from fellow subsidiaries . . . . .	1,118	597	3	208
Amount due from an intermediate holding company . . . . .	28,927	27,015	29,217	44,137
Bank balances and cash . . . . .	2,641	13,590	29,344	38,496
	<u>35,747</u>	<u>43,695</u>	<u>61,010</u>	<u>85,487</u>
<b>Financial liabilities</b>				
<i>Amortised cost</i>				
Other payables . . . . .	1,470	1,386	1,528	1,763
Amounts due to fellow subsidiaries . . . . .	367,703	346,336	327,842	327,232
Amount due to an intermediate holding company . . . . .	4,145	730	1,019	1,631
Loans from fellow subsidiaries . . . . .	118,350	118,350	118,350	118,350
	<u>491,668</u>	<u>466,802</u>	<u>448,739</u>	<u>448,976</u>

b. *Financial risk management objectives and policies*

Details of the Companies' financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Interest rate risk**

The Companies have no significant interest bearing assets, their income and operating cash flows are substantially independent of changes in market interest rates. The interest rate risk arises from loans from fellow subsidiaries which are interest bearing at market rates. Borrowings at market interest rates expose the Companies to cash flow interest rate risk.

*Interest rate sensitivity analysis*

The sensitivity analysis below has been determined based on the Companies' exposure to interest rates for the stipulated changes taking place at the beginning of the financial year and held constant throughout the financial period in the case of financial instruments that bear interest at floating rates. 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Companies' profit for the year/period would decrease or increase accordingly. This is mainly attributable to the Companies' exposure to interest rates on its floating rate borrowings which is not hedged. The following analysis shows the Companies' sensitivity to interest rates exposure:

Increase in interest rates basis points by:

	Decrease in profit			
	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
100 basis points . . . . .	<u>1,184</u>	<u>1,184</u>	<u>1,184</u>	<u>592</u>

Conversely, if the interest rates were to decline, the effect would be an increase in the Companies' result by the amount shown above.

No interest rate sensitivity analysis in relation to interest bearing financial assets of the Companies are presented since the management considers that the interest rate risk exposure on the interest bearing financial assets is insignificant.

#### Credit risk

The Companies are exposed to credit risk in relation to trade and other receivables and cash deposits with banks. The carrying amounts of these balances represent the Companies' maximum exposure to credit risk in relation to financial assets.

To manage this risk, deposits are mainly placed with high-credit-quality financial institutions. In addition, it has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. Monthly rental in respect of rented properties are payable in advance by tenants in accordance with the lease agreements. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Companies review regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Companies has no significant concentrations of credit risks.

#### Liquidity risk

The Companies aim to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of borrowings from group companies.

*Liquidity risk analysis*

The following table analyses the Companies' non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2008
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2008</b>							
<b>Financial liabilities</b>							
Other payables . . . . .	—	1,470	—	—	—	1,470	1,470
Tenant's deposits . . . . .	—	1,868	4,416	5,450	2,801	14,535	14,535
Amounts due to fellow subsidiaries . . . . .	—	367,703	—	—	—	367,703	367,703
Loans from fellow subsidiaries . . . . .	6.85	118,350	—	—	—	118,350	118,350
Amount due to an intermediate holding company . . . . .	—	4,145	—	—	—	4,145	4,145
		<u>493,536</u>	<u>4,416</u>	<u>5,450</u>	<u>2,801</u>	<u>506,203</u>	<u>506,203</u>
<b>31 December 2009</b>							
<b>Financial liabilities</b>							
Other payables . . . . .	—	1,386	—	—	—	1,386	1,386
Tenant's deposits . . . . .	—	3,056	4,236	4,711	2,523	14,526	14,526
Amounts due to fellow subsidiaries . . . . .	—	346,336	—	—	—	346,336	346,336
Loans from fellow subsidiaries . . . . .	7.33	118,350	—	—	—	118,350	118,350
Amount due to an intermediate holding company . . . . .	—	730	—	—	—	730	730
		<u>469,858</u>	<u>4,236</u>	<u>4,711</u>	<u>2,523</u>	<u>481,328</u>	<u>481,328</u>

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2010</b>							
<b>Financial liabilities</b>							
Other payables . . . . .	—	1,528	—	—	—	1,528	1,528
Tenant's deposits . . . . .	—	3,185	3,726	6,113	2,299	15,323	15,323
Amounts due to fellow subsidiaries . . . . .	—	327,842	—	—	—	327,842	327,842
Loans from fellow subsidiaries . . . . .	7.36	118,350	—	—	—	118,350	118,350
Amount due to an intermediate holding company . . . . .	—	1,019	—	—	—	1,019	1,019
		<u>451,924</u>	<u>3,726</u>	<u>6,113</u>	<u>2,299</u>	<u>464,062</u>	<u>464,062</u>

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 30 June 2011
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>30 June 2011</b>							
<b>Financial liabilities</b>							
Other payables . . . . .	—	1,763	—	—	—	1,763	1,763
Tenant's deposits . . . . .	—	2,383	3,531	7,613	2,602	16,129	16,129
Amounts due to fellow subsidiaries . . . . .	—	327,232	—	—	—	327,232	327,232
Loans from fellow subsidiaries . . . . .	2.97	118,350	—	—	—	118,350	118,350
Amount due to an intermediate holding company . . . . .	—	1,631	—	—	—	1,631	1,631
		<u>451,359</u>	<u>3,531</u>	<u>7,613</u>	<u>2,602</u>	<u>465,105</u>	<u>465,105</u>

**c. Fair value**

The fair value of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Companies considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

**20. OPERATING LEASE COMMITMENTS**

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Minimum lease income under operating leases included in revenue . . . . .	<u>53,006</u>	<u>55,927</u>	<u>58,865</u>	<u>28,700</u>	<u>30,666</u>

(unaudited)

At the end of each reporting period, the Companies had contracted with tenants for the following future minimum lease payments:

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year . . . . .	43,194	36,444	48,309	47,385
In the second to fifth years inclusive . . . . .	28,234	24,109	30,084	28,222
Over five years . . . . .	—	261	430	306
Total . . . . .	<u>71,428</u>	<u>60,814</u>	<u>78,823</u>	<u>75,913</u>

The Companies rents out its properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Companies for its properties. Leases are negotiated for an average term of 3 years with monthly fixed rental, except for certain leases of which contingent rents are charged at 7 to 12% on tenants' sales amount.

## 21. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Companies entered into the following transactions with related parties:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Rental and charge-out collection from fellow subsidiaries . . . . .	12,103	12,103	12,812	6,505	6,468
Rental collection and letting commission paid to a fellow subsidiary . . . . .	1,275	1,254	1,570	855	644
Interest expense paid to a fellow subsidiary . . . . .	6,901	8,561	8,570	4,292	2,331
Staff costs recharged by an intermediate holding company and fellow subsidiaries (included in building management expenses) . . . . .	1,955	1,940	1,871	905	1,037
Management service fees paid to intermediate holding company . . . . .	<u>7,032</u>	<u>5,899</u>	<u>6,780</u>	<u>3,588</u>	<u>3,462</u>

Included in the Companies' trade receivables are rental and other receivables from fellow subsidiaries with a carrying amount of HK\$441,000, HK\$48,000, HK\$46,000 and HK\$237,000 as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011, respectively.

Included in the Companies' tenant's deposits are tenancy deposits received from fellow subsidiaries with a carrying amount of HK\$14,000, HK\$14,000, HK\$25,000 and HK\$184,000 as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011, respectively.

The amounts due from/to fellow subsidiaries and an intermediate holding company, and loans from fellow subsidiaries at the end of each reporting period and their terms are disclosed in combined statements of financial position and notes 13 and 16.



**(II) HOLDING COMPANIES**

The immediate holding company of Recoup Investments Limited is Alpino Investment Limited, a company incorporated in the B.V.I. whereas the immediate holding company of Caratal Company Limited, Ling Fung Development Limited and Wilmington Land Company Limited is Cactus Holdings Limited, a company incorporated in the B.V.I. The directors of the Companies consider HWL, a company incorporated and listed in Hong Kong, to be the ultimate holding company of the Companies throughout the Relevant Periods.

**(III) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements for any of the companies comprising the Companies have been prepared in respect of any period subsequent to 30 June 2011.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

*The following is the text of a report, prepared for the purpose of inclusion in this Circular, from Deloitte Touche Tohmatsu, certified public accountants, in relation to the unaudited pro forma financial information of the Fortune REIT Group.*

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF ARA ASSET MANAGEMENT (FORTUNE) LIMITED (AS MANAGER OF FORTUNE REAL ESTATE INVESTMENT TRUST) AND HSBC INSTITUTIONAL TRUST SERVICES (SINGAPORE) LIMITED (AS TRUSTEE OF FORTUNE REAL ESTATE INVESTMENT TRUST)**

We report on the unaudited pro forma financial information of Fortune Real Estate Investment Trust ("**Fortune REIT**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by ARA Asset Management (Fortune) Limited (the "**Manager**" of Fortune REIT) for illustrative purposes only, to provide information about how: (i) the acquisition of Provident Centre Property and certain portion of Belvedere Garden Property (the "**Properties**") and (ii) remaining portion of Belvedere Garden Property through the acquisition of the entire equity interest in Recoup Investments Limited ("**Recoup**"), together with the remaining 35% of the equity interest not already owned by Recoup in Quebostar Limited (the "**Companies**", which together with the Group are collectively referred to as the "**Enlarged Group**") (the "**Acquisition**") might have affected the financial information presented, for inclusion in the circular of Fortune REIT dated 28 December 2011 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix 3 to the Circular.

**Respective Responsibilities of the Manager of and Reporting Accountants**

It is the responsibility solely of the Manager to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), as if the rules were applicable to Fortune REIT, and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules as if the rules were applicable to Fortune REIT, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Manager. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Manager on the basis stated, that such basis is consistent with the accounting

policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules as if the rules were applicable to Fortune REIT.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the Manager, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- (a) the financial position of the Enlarged Group as at 30 September 2011 or any future date; or
- (b) the financial position of the Enlarged Group as at 31 December 2010 or any future date; or
- (c) the results of the Enlarged Group for the year ended 31 December 2010 or any future period; or
- (d) the results of the Enlarged Group for the six months ended 30 June 2011 or any future period.

#### Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the Manager on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules as if the rules were applicable to Fortune REIT.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
28 December 2011

*In accordance with the regulatory intent expressed by the SFC to achieve parity for REITs and listed companies in Hong Kong where appropriate and practicable, the following unaudited pro forma financial information of the Fortune REIT Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as if the rules were applicable to REITs.*

*The following unaudited pro forma financial information of the Fortune REIT Group has been prepared based on the assumptions below for illustrative purpose only, to provide information about how the Acquisition might have affected the financial information presented for the Enlarged Group.*

**1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP**

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group assuming that the Acquisition had taken place on 30 September 2011. The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on:

- (a) the unaudited consolidated statement of financial position of the Group as of 30 September 2011, extracted from the 2011 third quarter results announcement of the Group for the nine months ended 30 September 2011; and
- (b) the combined statement of financial position of the Companies as of 30 June 2011, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as of 30 September 2011 or at any future date.

	The Group	The Companies	Pro forma adjustments	Notes	The Enlarged Group
	HK\$'000	HK\$'000	HK\$'000		HK\$'000
<b>Non-current assets</b>					
Investment properties . . . . .	15,697,460	—	1,900,000	(1)	17,597,460
Completed properties for sale . . . . .	—	695,632	(695,632)	(1)	—
	<u>15,697,460</u>	<u>695,632</u>			<u>17,597,460</u>
<b>Current assets</b>					
Trade and other receivables . . . . .	50,372	2,646			53,018
Amounts due from fellow subsidiaries . . . . .	—	208	(208)	(2)	—
Amount due from an intermediate holding company . . . . .	—	44,137	(44,137)	(2)	—
Bank balances and cash . . . . .	913,209	38,496	(30,000)	(3)	402,899
			(500,000)	(4)	
			(18,806)	(5)	
	<u>963,581</u>	<u>85,487</u>			<u>455,917</u>
<b>Total assets . . . . .</b>	<u>16,661,041</u>	<u>781,119</u>			<u>18,053,377</u>
<b>Non-current liabilities</b>					
Derivative financial instruments . . . . .	130,863	—			130,863
Borrowings . . . . .	2,792,141	—	1,100,000	(4)	3,892,141
Deferred tax liabilities . . . . .	161,763	—			161,763
	<u>3,084,767</u>	<u>—</u>			<u>4,184,767</u>
<b>Current liabilities</b>					
Trade and other payables . . . . .	309,416	17,892			327,308
Loans from fellow subsidiaries . . . . .	—	118,350	(118,350)	(2)	—
Amount due to an intermediate holding company . . . . .	—	1,631	(1,631)	(2)	—
Amounts due to fellow subsidiaries . . . . .	—	327,232	(327,232)	(2)	—
Borrowings . . . . .	520,000	—	300,000	(4)	820,000
Distribution payable . . . . .	112,336	—			112,336
Provision for taxation . . . . .	61,867	4,444			66,311
	<u>1,003,619</u>	<u>469,549</u>			<u>1,325,955</u>
<b>Total liabilities, excluding net assets attributable to unitholders . . . . .</b>	<u>4,088,386</u>	<u>469,549</u>			<u>5,510,722</u>
<b>Net assets attributable to unitholders . . . . .</b>	<u>12,572,655</u>	<u>311,570</u>			<u>12,542,655</u>
<b>Units in issue and to be issued . . . . .</b>	1,680,695,942		5,307,262	(6)	1,686,003,204
<b>Net asset value per units (HK\$) . . . . .</b>	<u>7.48</u>				<u>7.44</u>

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Notes:

1. The adjustment represents:
  - (a) the reclassification of certain portion of Belvedere Garden Property currently held by the Companies for sale in the ordinary course of business to investment properties in line with the intention and the business model of the Group;
  - (b) the acquisition of the entire issued share capital of Recoup and 35% of equity interest in Quebostar Limited, together with the assignment of the amounts due from an intermediate holding company and loans from and amounts due to fellow subsidiaries to the Group at a consideration of HK\$1,185,544,000; and
  - (c) the acquisition of the Properties at a consideration of HK\$714,456,000.
2. The adjustment represents the elimination of intercompany balances between the Group and the Companies.
3. The adjustment represents the payment of directly attributable costs of the Acquisition, comprising stamp duty of HK\$9,500,000 and other expenses of HK\$20,500,000.
4. The adjustment represents the settlement of total consideration for the acquisition of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 ("**Purchase Consideration**") financed by the revolving credit with maximum amount of HK\$300,000,000 and term loan with maximum amount of HK\$1,100,000,000 under the New Facility and the remainder by cash settlement of HK\$500,000,000.
5. Pursuant to the Master Share Purchase Agreement, the Purchase Consideration is subject to adjustment for the net current assets/liabilities of the Companies at the completion date of the Acquisition. Accordingly, the adjustment represents the additional payment for the Acquisition assuming that the net current assets of the Companies is the same as that at 30 June 2011 of HK\$18,806,000.
6. The adjustment represents the payment of acquisition fee to the Manager of HK\$19,000,000, which is calculated at 1% of the Purchase Consideration pursuant to the Trust Deed and will be settled in units of Fortune REIT to be issued at market price. Based on the market price per unit of Fortune REIT as at 22 December 2011, the Latest Practicable Date, of HK\$3.58, being the closing market price per unit of Fortune REIT quoted from Singapore Exchange Securities Trading Limited, 5,307,262 units of Fortune REIT will be issued to the Manager.
7. For the purpose of preparing the pro forma financial information, the total fair value of Belvedere Garden Property and Provident Centre Property at 30 September 2011 is assumed to be the same as that at the date of Acquisition.

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group assuming that the Acquisition had taken place on 31 December 2010. The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of financial position of the Group as of 31 December 2010, extracted from the annual report of the Group for the year ended 31 December 2010; and
- (b) the combined statement of financial position of the Companies as of 31 December 2010, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as of 31 December 2010 or at any future date.

	<u>The Group</u>	<u>The</u> <u>Companies</u>	<u>Pro forma</u> <u>adjustments</u>	<u>Notes</u>	<u>Enlarged</u> <u>Group</u>
	HK\$'000	HK\$'000	HK\$'000		HK\$'000
<b>Non-current assets</b>					
Investment properties . . . . .	13,300,000	—	1,900,000	(1)	15,200,000
Completed properties for sale . . . . .	—	695,632	(695,632)	(1)	—
	<u>13,300,000</u>	<u>695,632</u>			<u>15,200,000</u>
<b>Current assets</b> . . . . .					
Trade and other receivables . . . . .	63,241	2,446			65,687
Amounts due from fellow subsidiaries . . . . .	—	3	(3)	(2)	—
Amount due from an intermediate holding company . . . . .	—	29,217	(29,217)	(2)	—
Bank balances and cash . . . . .	506,073	29,344	(30,000)	(3)	—
			(492,421)	(4)	
			(12,996)	(5)	
	<u>569,314</u>	<u>61,010</u>			<u>65,687</u>
<b>Total assets</b> . . . . .	<u>13,869,314</u>	<u>756,642</u>			<u>15,265,687</u>
<b>Non-current liabilities</b>					
Derivative financial instruments . . . . .	55,294	—			55,294
Borrowings . . . . .	2,772,448	—	1,100,000	(4)	3,872,448
Deferred tax liabilities . . . . .	148,165	—			148,165
	<u>2,975,907</u>	<u>—</u>			<u>4,075,907</u>
<b>Current liabilities</b>					
Trade and other payables . . . . .	269,747	16,851			286,598
Loans from fellow subsidiaries . . . . .	—	118,350	(118,350)	(2)	—
Amount due to an intermediate holding company . . . . .	—	1,019	(1,019)	(2)	—
Amounts due to fellow subsidiaries . . . . .	—	327,842	(327,842)	(2)	—
Borrowings . . . . .	79,000	—	307,579	(4)	386,579
Distribution payable . . . . .	201,995	—			201,995
Provision for taxation . . . . .	8,977	1,943			10,920
	<u>559,719</u>	<u>466,005</u>			<u>886,092</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b> . . . . .	<u>3,535,626</u>	<u>466,005</u>			<u>4,961,999</u>
<b>Net assets attributable to unitholders</b> . . . . .	<u>10,333,688</u>	<u>290,637</u>			<u>10,303,688</u>
<b>Units in issue and to be issued</b> . . . . .	1,671,599,900		5,307,262	(6)	1,676,907,162
<b>Net asset value per units (HK\$)</b> . . . . .	<u>6.18</u>				<u>6.14</u>



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Notes:

1. The adjustment represents:
  - (a) the reclassification of certain portion of Belvedere Garden Property currently held by the Companies for sale in the ordinary course of business to investment properties in line with the intention and the business model of the Group;
  - (b) the acquisition of the entire issued share capital of Recoup and 35% of equity interest in Quebostar Limited together with the assignment of the amounts due from an intermediate holding company and loans from and amounts due to fellow subsidiaries to the Group at a consideration of HK\$1,185,544,000; and
  - (c) the acquisition of the Properties at a consideration of HK\$714,456,000.
2. The adjustment represents elimination of intercompany balances between the Group and the Companies.
3. The adjustment represents the payment of directly attributable costs of the Acquisition, comprising stamp duty of HK\$9,500,000 and other expenses of HK\$20,500,000.
4. The adjustment represents the settlement of total consideration for the acquisition of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 ("**Purchase Consideration**") financed by the revolving credit with maximum amount of HK\$300,000,000 and term loan with maximum amount of HK\$1,100,000,000 under the New Facility and the Group's available bank and cash balances of HK\$492,421,000, while the remainder to be financed by revolving loan of HK\$7,579,000 under the Existing Facility.
5. Pursuant to the Master Share Purchase Agreement, the Purchase Consideration is subject to adjustment for the net current assets/liabilities of the Companies at the completion date of the Acquisition. Accordingly, the adjustment represents the additional payment for the Acquisition assuming that the net current assets of the Companies is the same as that at 31 December 2010 of HK\$12,996,000.
6. The adjustment represents the payment of acquisition fee to the Manager of HK\$19,000,000, which is calculated at 1% of the Purchase Consideration pursuant to the Trust Deed and will be settled in units of Fortune REIT to be issued at market price. Based on the market price per unit of Fortune REIT as at 22 December 2011, the Latest Practicable Date, of HK\$3.58, being the closing market price per unit of Fortune REIT quoted from Singapore Exchange Securities Trading Limited, 5,307,262 units of Fortune REIT will be issued to the Manager.
7. For the purpose of preparing the pro forma financial information, the total fair value of Belvedere Garden Property and Provident Centre Property at 31 December 2010 is assumed to be the same as that at the date of Acquisition.

**2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP**

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group which illustrates the financial impact of the Acquisition on the results of the Group assuming that the Acquisition had taken place on 1 January 2010. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2010, extracted from the annual report of the Group for the year ended 31 December 2010;
- (b) the combined statement of comprehensive income of the Companies for the year ended 31 December 2010, extracted from the Accountants' Report set out in Appendix 2 of the Circular; and
- (c) Revenue and related expenses attributable to the Properties, derived from the underlying books and records of the companies which hold the Properties.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the year ended 31 December 2010 or for any future financial period.

	Pro forma adjustments					The Enlarged Group
	The Group	The Companies	Income generating units	Others	Notes	
			(note 1)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Revenue . . . . .	837,263	72,066	47,988			957,317
Property operating expenses . . . . .	(240,439)	(21,967)	(18,776)	(4,294)	(2)	(285,476)
<b>Net property income . . . . .</b>	<b>596,824</b>	<b>50,099</b>				<b>671,841</b>
Manager's base fee . . . . .	(37,246)	—		(5,700)	(3)	(42,946)
Foreign currency exchange gain. . . . .	190	—				190
Interest income . . . . .	923	—				923
Trust expenses . . . . .	(37,507)	—		(665)	(4)	(38,172)
Change in fair value of investment properties (note 10) . . . . .	1,760,977	—				1,760,977
Change in fair value of derivative financial statements. . . . .	(54,879)	—				(54,879)
Finance costs . . . . .	(131,912)	(8,570)	(30,990)	(3,560)	(5)	(175,032)
<b>Profit before taxation and transactions with unitholders . . . . .</b>	<b>2,097,370</b>	<b>41,529</b>				<b>2,122,902</b>
Income tax expense . . . . .	(78,071)	(6,861)		(1,258)	(6)	(86,190)
<b>Profit for the period, before transactions with unitholders . . . . .</b>	<b>2,019,299</b>	<b>34,668</b>				<b>2,036,712</b>
Distribution to unitholders . . . . .	(406,487)	—		(23,778)	(8)	(430,265)
<b>Profit for the period, after transactions with unitholders . . . . .</b>	<b>1,612,812</b>	<b>34,668</b>				<b>1,606,447</b>
<b>Other comprehensive income</b>						
Change in fair value of derivative financial instruments under cash flow hedge . . . . .	27,097	—				27,097
<b>Total comprehensive income for the period . . . . .</b>	<b>1,639,909</b>	<b>34,668</b>				<b>1,633,544</b>
<b>Income available for distribution (note 7) . . . . .</b>	<b>406,487</b>	<b>34,668</b>	(1,778)	(9,112)	(7)	<b>430,265</b>
Units in issue and to be issued . . . . .	1,671,599,900			6,899,441	(9)	1,678,499,341
Distribution per unit (HK cents) . . . . .	24.35					25.63

## Notes:

1. Adjustment to incorporate the operating results of the Properties, income generated from rental and related expenses from 1 January 2010 to 31 December 2010.
2. Adjustment to reflect expenses which would be charged by the Manager or property manager for the management of the Properties in accordance with the Trust Deed or other relevant agreements. These expenses comprise:
  - (a) the payment of management fee to the property manager of HK\$2,731,000, which is calculated at 3% per annum of the gross property revenue of Belvedere Garden Property and Provident Centre Property pursuant to the agreement entered into between the Manager of Fortune REIT and property manager ("Property Management Agreement");

- (b) the payment of car park management fee of HK\$255,000, which is calculated at 6.5% per annum of the gross car park income of Belvedere Garden Property pursuant to the agreement entered into between the Manager of Fortune REIT and the car park management company;
  - (c) the payment of Manager's performance fee of HK\$2,296,000, which is calculated at 3% per annum of the net property income of Belvedere Garden Property and Provident Centre Property pursuant to the Trust Deed dated 4 July 2003 (as amended) (the "Trust Deed");
  - (d) the payment of leasing commission to property manager of HK\$1,650,000, which is calculated pursuant to the Property Management Agreement; and
  - (e) reversal of leasing commission fees of HK\$2,638,000 charged by subsidiaries of Hutchison Whampoa Limited.
3. The adjustment represents the payment of Manager's base fee, calculated at 0.3% per annum on the value of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 pursuant to the Trust Deed.
4. The adjustment represents the payment of trustee fee to the trustee of Fortune REIT at 0.035% per annum on the value of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 pursuant to the Trust Deed.
5. The adjustment represents the payment of borrowing costs of HK\$43,120,000 on the New Facility. The amount is calculated at average borrowing rate with reference to HIBOR on the maximum amount of borrowings of HK\$1,400,000,000 under the New Facility, and the reversal of borrowing costs on loans from fellow subsidiaries of HK\$39,560,000.
6. The adjustment represents the tax effects on (i) income available for distribution from the income generating units; and (ii) the adjustments mentioned in (2) and (5) above after deducting non-deductible finance costs of HK\$17,256,000, which are calculated at the tax rate of 16.5%.
7. Income available for distribution in respect of the Companies and income generating units amounting to income of HK\$34,668,000 and loss of HK\$1,778,000, respectively, is determined in accordance with Fortune REIT's computation method, that is, profit for the year, before transactions with unitholders after adjusting Manager's base fee, change in fair values of investment properties and derivative financial statements, front end fees, foreign currency exchange gain and other non-tax deductible trust expenses/income.  
  
The adjustment of HK\$9,112,000 to income available for distribution of the Enlarged Group represents the effect from the adjustments mentioned in notes (2), (5) and (6) above.
8. The adjustment represents the additional distribution to unitholders after the Acquisition, which is based on 100% of the income available for distribution for the Enlarged Group pursuant to Fortune REIT's distribution policy.
9. The adjustment represents the units of Fortune REIT to be issued for the settlement of the following fees based on the market price per unit of Fortune REIT as at 22 December 2011, the Latest Practicable Date, of HK\$3.58, being the closing market price per unit of Fortune REIT quoted from Singapore Exchange Securities Trading Limited:
  - (a) Manager's base fee as mentioned in note (3) above; and
  - (b) acquisition fee payable to the Manager, which is calculated at 1% of the Purchase Consideration.
10. For the purpose of preparing the pro forma consolidated statement of comprehensive income, it is assumed that there is no change in fair value of Provident Centre Property and Belvedere Garden Property during the year ended 31 December 2010. The Manager of Fortune REIT considers that to include pro forma adjustment for change in fair value of such properties in the pro forma consolidated statement of comprehensive income is not meaningful as changes in fair value of investment properties have no impact on income available for distribution.

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group which illustrates the financial impact of the Acquisition on the results of the Group assuming that the Acquisition had taken place on 1 January 2011. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared based on:

- (a) the unaudited statement of comprehensive income of the Group for the six months ended 30 June 2011, extracted from the interim report of the Group for the six months ended 30 June 2011;
- (b) the combined statement of comprehensive income of the Companies for the six months ended 30 June 2011, extracted from the Accountants' Report set out in Appendix 2 of the Circular; and
- (c) Revenue and related expenses attributable to the Properties, derived from the underlying books and records of the companies which hold the Properties.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the six months ended 30 June 2011 or for any future financial period.

	Pro Forma adjustments					The Enlarged Group HK\$'000
	The Group	The Companies	Income generating units (note 1)	Others	Notes	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Revenue . . . . .	446,837	37,928	24,853			509,618
Property operating expenses . . . . .	(127,310)	(10,525)	(8,415)	(2,328)	(2)	(148,578)
<b>Net property income . . . . .</b>	<b>319,527</b>	<b>27,403</b>				<b>361,040</b>
Manager's base fee . . . . .	(21,572)	—		(2,850)	(3)	(24,422)
Foreign currency exchange gain. . . . .	100	—				100
Interest income . . . . .	1,435	—				1,435
Trust expenses. . . . .	(7,313)	—		(333)	(4)	(7,646)
Change in fair value of investment properties (note 10). . . . .	2,381,242	—				2,381,242
Change in fair value of derivative financial statements . . . . .	13,119	—				13,119
Finance costs . . . . .	(120,809)	(2,331)	(8,621)	(10,637)	(5)	(142,398)
<b>Profit before taxation and transactions with unitholders . . . . .</b>	<b>2,565,729</b>	<b>25,072</b>				<b>2,582,470</b>
Income tax expense. . . . .	(41,316)	(4,139)		(580)	(6)	(46,035)
<b>Profit for the period, before transactions with unitholders . . . . .</b>	<b>2,524,413</b>	<b>20,933</b>				<b>2,536,435</b>
Distribution to unitholders . . . . .	(214,805)	—		(15,205)	(8)	(230,010)
<b>Profit for the period, after transactions with unitholders . . . . .</b>	<b>2,309,608</b>	<b>20,933</b>				<b>2,306,425</b>
<b>Other comprehensive income</b>						
Change in fair value of derivative financial instruments under cash flow hedge. . . . .	(52,592)	—				(52,592)
<b>Total comprehensive income for the period . . . . .</b>	<b>2,257,016</b>	<b>20,933</b>				<b>2,253,833</b>
<b>Income available for distribution (note 7) . . . . .</b>	<b>214,805</b>	<b>20,933</b>	<b>7,817</b>	<b>(13,545)</b>	<b>(7)</b>	<b>230,010</b>
<b>Units in issue and to be issued . . . . .</b>	<b>1,677,297,276</b>			<b>6,103,351</b>	<b>(9)</b>	<b>1,683,400,627</b>
<b>Distribution per unit (HK cents). . . . .</b>	<b>12.80</b>					<b>13.66</b>

## Notes:

1. Adjustment to incorporate the operating results of the Properties, income generated from rental and related expenses from 1 January 2011 to 30 June 2011.
2. Adjustment to reflect expenses which would be charged by the Manager or property manager for the management of the Properties in accordance with the Trust Deed or other relevant agreements. These expenses comprise:
  - (a) the payment of management fee to the property manager of HK\$1,448,000, which is calculated at 3% per annum of the gross property revenue of Belvedere Garden Property and Provident Centre Property pursuant to the Property Management Agreement;
  - (b) the payment of car park management fee of HK\$113,000, which is calculated at 7.5% per annum of the gross car park income of Belvedere Garden Property pursuant to the agreement between the Manager of Fortune REIT and the car park management company;

- (c) the payment of Manager's performance fee of HK\$1,259,000, which is calculated at 3% per annum of the net property income of Belvedere Garden Property and Provident Centre Property pursuant to the Trust Deed;
  - (d) the payment of leasing commission to property manager of HK\$611,000, which is calculated pursuant to the Property Management Agreement; and
  - (e) reversal of leasing commission fees of HK\$1,103,000 charged by subsidiaries of Hutchison Whampoa Limited.
3. The adjustment represents the payment of Manager's base fee, calculated at 0.3% per annum of the value of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 pursuant to the Trust Deed.
4. The adjustment represents the payment of trustee fee to the trustee of Fortune REIT at 0.035% per annum of the value of Belvedere Garden Property and Provident Centre Property of HK\$1,900,000,000 pursuant to the Trust Deed.
5. The adjustment represents the payment of borrowing costs of HK\$21,589,000 on both New and Existing Facilities. The amount is calculated at average borrowing rate with reference to HIBOR on the minimum amount of borrowings of HK\$1,407,579,000 under the New and Existing Facilities, and the reversal of borrowing costs on loans from fellow subsidiaries of HK\$10,952,000.
6. The adjustment represents the tax effects on (i) income available for distribution from the income generating units; and (ii) the adjustments mentioned in (2) and (5) above after deducting non-deductible finance costs of HK\$8,662,000, which are calculated at the tax rate of 16.5%.
7. Income available for distribution in respect of the Companies and income generating units amounting to income of HK\$20,933,000 and HK\$7,817,000, respectively, is determined in accordance with Fortune REIT's computation method, that is, profit for the year, before transactions with unitholders after adjusting Manager's base fee, change in fair values of investment properties and derivative financial statements, front end fees, foreign currency exchange gain and other non-tax deductible trust expenses/income.
- The adjustment of HK\$13,545,000 to income available for distribution of the Enlarged Group represents the effect from the adjustments mentioned in notes (2), (5) and (6) above.
8. The adjustment represents the additional distribution to unitholders after the Acquisition, which is based on 100% of the income available for distribution for the Enlarged Group pursuant to Fortune REIT's distribution policy.
9. The adjustment represents the units of Fortune REIT to be issued for the settlement of the following fees based on the market price per unit of Fortune REIT as at 22 December 2011, the Latest Practicable Date, of HK\$3.58, being the closing market price per unit of Fortune REIT quoted from Singapore Exchange Securities Trading Limited:
- (a) Manager's base fee as mentioned in note (3) above; and
  - (b) acquisition fee to the Manager, which is calculated at 1% of the Purchase Consideration.
10. For the purpose of preparing the pro forma consolidated statement of comprehensive income, it is assumed that there is no change in fair value of Provident Centre Property and Belvedere Garden Property during the period ended 30 June 2011. The Manager of Fortune REIT considers that to include pro forma adjustment for change in fair value of such properties in the pro forma consolidated statement of comprehensive income is not meaningful as changes in fair value of investment properties have no impact on future income available for distribution.

**A. KNIGHT FRANK PROPERTY VALUATION REPORT**

*The following is the text of the valuation report received from Knight Frank Petty Limited, an Independent Property Valuer, prepared for the purpose of inclusion in this Circular, in connection with the valuation of the New Properties as at 30 September 2011.*



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28 December 2011

HSBC Institutional Trust Services (Singapore) Limited  
(as Trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01, HSBC Building  
Singapore 049320

ARA Asset Management (Fortune) Limited  
(as Manager of Fortune Real Estate Investment Trust)  
#16-02, Suntec Tower Four  
6 Temasek Boulevard  
Singapore 038986

Dear Sirs

**Valuation of Two Retail Properties for Fortune Real Estate Investment Trust ("Fortune REIT")**

**1. Provident Centre Property**

**Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor (but excluding the Carparking Spaces, Driveways and Appurtenant Areas, the Common Areas & Facilities thereof and therein) and Sub-Basement, Nos 21-53 Wharf Road, North Point, Hong Kong**

**2. Belvedere Garden Property**

**Various Shops, the Clinics, the Kindergartens, a Market, various Car Parking Spaces and Motor Cycle Parking Spaces, Common Areas, Belvedere Garden Phase 1, Nos 530-590 Castle Peak Road-Tsuen Wan; Belvedere Garden Phase 2, No 620 Castle Peak Road-Tsuen Wan; Belvedere Garden Phase 3, No 625 Castle Peak Road-Tsuen Wan, Tsuen Wan, New Territories, Hong Kong**



In accordance with the instructions from the Trustee for us to value the captioned properties (hereinafter referred to as "**the Properties**"), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 30 September 2011 (hereinafter referred to as the "**Valuation Date**") for acquisition purposes.

### **Basis of Valuation**

Our valuation is our opinion of the market value of the property which we would define as intended to mean "**the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion**".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong and The HKIS Valuation Standards on Properties (1st edition 2005) published by the Hong Kong Institute of Surveyors.

### **Valuation Methodologies**

We have valued the Properties subject to their respective tenancies. In undertaking our valuation of the Properties, Income Capitalization and Direct Comparison approaches are adopted. Income Capitalization approach is considered to be the most appropriate method to assess market value of leased properties, particularly taking into consideration of the property's type of use and condition. Apart from Income Capitalization approach, Direct Comparison approach is also adopted for cross referencing purposes.

#### *Income Capitalisation*

By this approach, the existing net rental incomes, i.e. rent exclusive of rates, government rents, management fees, air-conditioning charges and other tenants' outgoings, of all lettable units of a property are capitalized for its unexpired term of contractual tenancies. Upon reversion, i.e. at the expiry of the existing tenancy, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized at market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government leases upon their expiries. Any vacant units are assumed to be let at their respective market rents at the Valuation Date. The market value of a property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred.

### *Direct Comparison*

As a cross-reference, sales evidence of shopping arcade and carpark transaction records have been collected and analyzed in terms of unit price per square foot and unit rate per space respectively. As there were limited shopping arcade transactions, where appropriate, we have also made reference to strata titled transactions.

### **Valuation Assumptions and Conditions**

Our valuation is subject to the following major assumptions and conditions.

#### *Source of Information*

We have relied to a very considerable extent on information given by the Manager or his representatives and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupancies, lettings, incomes, expenditures, site and floor areas and all other relevant matters. We have not verified the information provided to us and have assumed that they are correct. We do not undertake to certify the authenticity of the information provided to us and we have no reason to doubt the truth and accuracy of this information which is material to the valuation. We were also advised by the Manager that no material fact has been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

#### *Inspection and Measurement*

We have inspected the exterior and where possible, the interior of the Properties. However, we have not carried out on-site measurement to verify the correctness of the floor areas of the Properties valued and have assumed that the floor areas shown on the documents handed to us are correct.

#### *Title Documents and Encumbrances*

We have not been provided with any copies of title documents of the Properties but we have caused sample searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the Properties. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, premiums, restrictions, title defects and outgoings of an onerous nature which could affect their values.

Whilst we have taken reasonable care to investigate the titles of the Properties valued, we do not accept liability for any interpretation which we have placed on such information, which is more properly within the sphere of your legal advisers.

#### *Tenancy and Rental Information*

Our valuation is carried out subject to the existing tenancy arrangements and tenancy renewal agreements. In accordance with the tenancy schedule provided by the Manager, majority of the tenancies are exclusive of rates, Government rent, management fees and air-conditioning charges.

## APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS

In accordance with the standard tenancy agreement, the landlord is responsible for structural repairs and the landlord's fixtures and fittings and to keep the conduits in tenantable repair whilst the tenants are responsible for internal repairs to the Properties.

We have not examined the lease documentation for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedule and the standard tenancy agreement provided to us.

The estimated net property yield is based on the monthly net rental incomes, licence fees and miscellaneous incomes of the Properties as at the Valuation Date and the average monthly net income receivable from parking lots, etc. during the period from July 2010 to June 2011.

### *Structural Condition*

We have not undertaken any structural survey or tested the services of the Properties. Our valuation has therefore been undertaken on the basis that the Properties were all in satisfactory repair and condition with services functioning satisfactorily and are free from rot, infestation or any other structural defect.

### *Contamination*

We have not arranged for any investigation to be carried out to determine whether any deleterious or hazardous material has been used in the construction of the Properties and have therefore assumed in our valuation that none of the said material was contained in the Properties.

### *Compliance with Relevant Ordinances and Regulations*

We have assumed that the Properties had been developed, constructed, occupied and used in full compliance with, and without contravention of any Ordinances, except only where otherwise stated. We have further assumed that, for any use of the Properties upon which this report is based, any and all required licences, permits, certificates, and authorization have been obtained, except only where otherwise stated.

### **Valuer's Interest**

We hereby confirm that our valuers undertaking this valuation are authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Properties and are not a related corporation of nor do we have a relationship with the Manager, the Trustee or any other party or parties who Fortune REIT is contracting with. The valuers' compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the case of its vendor, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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### Summary of Values

We are of the opinion that the market values of the Properties subject to their respective tenancies as at the Valuation Date are as follows:

Property	Approximate Gross Rentable Area (sq ft)	No. of Parking Lots	Cap Rate	Market value in existing state as at 30 September 2011
Provident Centre Property	180,238	N/A	5.0%	HK\$ 680,000,000
Belvedere Garden Property	276,862	329*	5.2%	HK\$1,300,000,000
<b>Total</b>	<b>457,100</b>	<b>329*</b>		<b>HK\$1,980,000,000</b>

\* including 15 motor cycle parking spaces

Please refer to the attached valuation summary for property particulars of each of the Properties.

### Limiting Conditions

We have prepared this valuation report for inclusion in the Circular of the Fortune REIT and we specifically disclaim liability to any person in the event of any omission from or false or misleading statement included in the Circular, other than that in respect of the information provided within this valuation report. We do not make any warranty or representation as to the accuracy of the information in any part of the Circular other than that as expressly made or given in this valuation report.

The valuation report is for the use of the Manager, the board of directors of the Manager and the Trustee for the purposes of the proposed acquisition of the properties by the Trustee. No responsibility is accepted to any other party for the whole or any part of its contents.

This report and valuation have been prepared on the basis of information available as at 30 September 2011. Knight Frank Petty Limited accepts no responsibility for subsequent changes in information as to income, expenditures or market conditions.

**Conversion Factors**

Conversion factors used in this report are  
1 square metre = 10.764 square feet  
1 metre = 3.2808 feet

We enclose herewith our valuation summary and market overview.

Yours faithfully  
For and on behalf of  
**Knight Frank Petty Limited**  
**Alwick Chan**  
*Executive Director*  
*FRICS FHKIS RPS(GP)*

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Note: Alwick Chan, FRICS FHKIS RPS(GP), has been a qualified valuer with Knight Frank Petty Limited since 1997 and has 24 years' experience in the valuation of properties in Hong Kong

**VALUATION SUMMARY**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>
1. Provident Centre Property Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor (but excluding the Carparking Spaces, Driveways and appurtenant Areas, the Common Areas & Facilities thereof and therein) and Sub-Basement, Nos 21-53 Wharf Road, North Point, Hong Kong  Portion of shares of and in Inland Lot No 8465	Provident Centre Property is the commercial portion of a private residential cum commercial development, known as Provident Garden, completed in between 1982 and 1984.  The property comprises the portion of Basement, the portion of Ground Floor, the portion of Upper Ground Floor and the Sub-basement within Provident Garden.  The total gross rentable area of the property is approximately 16,744.52 sq m (about 180,238 sq ft).  Inland Lot No 8465 is held under a Government Lease for a term of 75 years commencing from 5 September 1921 renewable for 75 years. The Government rent payable for the lot is HK\$11,430,828 per annum.	The rentable area of the property was let under various tenancies mostly for terms of two to three years with the latest one expiring in November 2014, yielding a total monthly base rental of approximately HK\$2,703,000, exclusive of rates, government rent, management fees and air-conditioning charges. A number of the tenancies also subject to turnover rent provision or the base rent, whichever is the higher.  The property was also subject to various licences yielding a total monthly licence fee of approximately HK\$35,000.  The occupancy rate of the rentable area of the property as at the Valuation Date was approximately 92.3%.	HK\$680,000,000  Estimated net property yield was approximately 4.8%.

**Notes:**

- (1) The registered owner of the property was Provident Commercial Investments Limited.
- (2) The property lay within an area zoned "**Residential (Group A) 2**" under Approved North Point Outline Zoning Plan No S/H8/24 dated 30 November 2010.
- (3) The property was subject to the following encumbrances as at the Valuation Date:
  - i) Occupation Permit No H143/82 vide memorial no UB2335693 dated 8 November 1982.
  - ii) Deed of Mutual Covenant vide memorial no UB2372289 dated 24 January 1983.
  - iii) Deed Poll vide memorial no UB7232788 dated 31 July 1997.
  - iv) Sub-Lease Re G/F (PT.) & Basement (PT.) in favour of The Financial Secretary Incorporated vide memorial no UB7050948 dated 20 February 1997.

(Remarks: Portion of Basement, Portion of Ground and Portion of Upper Ground Floors of 3175/21165 shares see Deed Poll M/N UB7232788)

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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- (4) According to the information obtained from the Buildings Department, Provident Garden was also subject to the following Occupation Permits:-
- i) Occupation Permit No H185/83 dated 18 November 1983.
  - ii) Occupation Permit No H49/84 dated 9 May 1984.
- (5) Based on the tenancy information provided, the tenancy profiles (excluding income from miscellaneous spaces) as at the Valuation Date were set out below:-

**Tenancy Commencement Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2008 and before . . . . .	0.8%	0.4%
2009 . . . . .	60.3%	49.2%
2010 . . . . .	25.3%	28.7%
2011 . . . . .	13.6%	21.7%
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

**Tenancy Expiry Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2011 . . . . .	40.8%	40.0%
2012 . . . . .	23.3%	21.2%
2013 . . . . .	15.8%	18.0%
2014 . . . . .	20.1%	20.8%
2015 and beyond . . . . .	—	—
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

**Tenancy Duration Profile**

Tenancy Duration	% of total Gross Rentable Area	% of total Monthly Rental
Below and up to 2 years . . . . .	21.1%	25.0%
More than 2 years and up to 3 years . . . . .	64.4%	68.5%
More than 3 years . . . . .	14.5%	6.5%
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

\* Excluding Unit B15 which tenancy was commenced on 17 October 2011.

**APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>
2. Belvedere Garden Property Various Shops, the Clinics, the Kindergartens, a Market, various Car Parking Spaces and Motor Cycle Parking Spaces, Common Areas, Belvedere Garden Phase 1, Nos 530-590 Castle Peak Road — Tsuen Wan; Belvedere Garden Phase 2, No 620 Castle Peak Road — Tsuen Wan; Belvedere Garden Phase 3, No 625 Castle Peak Road — Tsuen Wan, Tsuen Wan, New Territories, Hong Kong  Belvedere Garden Phase 1: Portion of shares of and in Tsuen Wan Town Lot No 308  Belvedere Garden Phases 2&3: Portion of shares of and in Tsuen Wan Town Lot No 316	<p>Belvedere Garden is a comprehensive residential cum commercial development, completed in three phases in between 1987 and 1991.</p> <p>The property comprises various commercial areas, clinics, kindergartens, a market and various parking lots within Belvedere Garden, which are collectively referred to as Belvedere Garden Property. Details are set out below:–</p> <p><b>Belvedere Garden Phase 1</b> Shop Nos 1 to 7 on Ground Floor, Clinic Nos 1, 2, 3 and 4 on Mezzanine Floor, the Kindergarten on Mezzanine Floor, Car Parking Spaces Nos 16, 22, 23, 24, 25, 26, 27, 28, 29, 32, 34, 35, 37, 38, 39, 40, 41, 42, 43, 44, 45, 47 and 50 to 68 on Ground Floor and Car Parking Spaces Nos 12, 13, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 33, 34, 35, 36, 37, 40, 41, 43, 44, 47, 48, 49 and 51 on Basement 2 and 15 motor cycle spaces on Ground Floor.</p> <p><b>Belvedere Garden Phase 2</b> Shops Nos 1 to 10 &amp; 12 and the Kindergarten on the Ground Floor, Shops on the 1st Floor and Shops on the 2nd Floor and Car Parking Spaces Nos 51-77, 114, 117, 118, 121, 126-135 and 137-147 on Ground Floor, Common Areas.</p> <p><b>Belvedere Garden Phase 3</b> Shops and Market on the Ground Floor of Belvedere Square, Shops on Basement 2, Kindergarten on the Podium and Car Parking Spaces Nos 298, 303-306, 308-310, 324-326, 375-380 and 384-385 on Basement 2, Car Parking Spaces Nos 1-36, 50-53, 55-116 and 118-192 on Basement 1, Common Areas.</p> <p>The total gross rentable area of the property (excluding parking lots) is approximately 25,721.11 sq m (about 276,862 sq ft). The property also comprises a total of 329 parking lots which include 314 private carparking spaces and 15 motorcycle spaces.</p>	<p>The retail portion of the property was let under various tenancies mostly for terms of two to three years with the latest one expiring in August 2014, yielding a total monthly base rental of approximately HK\$5,284,000, exclusive of rates, Government rent, management fees and air-conditioning charges. A number of the tenancies also subject to turnover rent provisions or the base rent, whichever is the higher.</p> <p>The property was also subject to various licences yielding a total monthly licence fee of approximately HK\$37,000.</p> <p>The occupancy rate of the property as at the Valuation Date (excluding parking lots) was approximately 98.7%.</p> <p>The parking lots of the property were let on monthly or hourly basis yielding an average monthly net income of approximately HK\$312,000 during the period from July 2010 to June 2011.</p>	<p>HK\$1,300,000,000</p> <p>Estimated net property yield was approximately 5.2%.</p>



**APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>
	<p>Tsuen Wan Town Lot No 308 is held under New Grant No TW6583 for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 which thereafter was statutorily extended to 30 June 2047.</p> <p>Tsuen Wan Town Lot No 316 is held under New Grant No 6639 for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 which thereafter was statutorily extended to 30 June 2047.</p> <p>The Government rent payable for the property is at 3% of the Rateable Value for the time being of the property.</p>		

Notes:

(1) The registered owners of the property were as follows:

<p><b>Belvedere Garden Phase 1</b> Shop Nos 1 to 6 on Ground Floor, Clinic Nos 1 to 4 on Ground Floor, the Kindergarten on the Mezzanine Floor and 15 motor cycle spaces on Ground Floor</p>	:	Bysean Limited
<p>Shop No 7 on Ground Floor, Car Parking Spaces Nos 16, 22, 23, 24, 25, 26, 27, 28, 29, 32, 34, 35, 37, 38, 39, 40, 41, 42, 43, 44, 45, 47 and 50 to 68 on Ground Floor and Car Parking Spaces Nos 12, 13, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 33, 34, 35, 36, 37, 40, 41, 43, 44, 47, 48, 49 and 51 on Basement 2</p>	:	Quibonet Limited
<p><b>Belvedere Garden Phase 2</b> Shop Nos 1 to 10 &amp; 12 on Ground Floor, the Kindergarten on Ground Floor, Shops on 1/F and Shops on 2/F and Car Parking Spaces Nos 51-77, 114, 117, 118, 121, 126-135 and 137-147 on Ground Floor, Common Areas</p>	:	Ling Fung Development Limited (1,538/4,883), Wilmington Land Company Limited (870/4,883) and Quebostar Limited (2,475/4,883) (Tenants in Common)
<p><b>Belvedere Garden Phase 3</b> Shops on Basement 2, Shops on Ground Floor of Belvedere Square, Market on Ground Floor, the Kindergarten on Podium and Car Parking Spaces Nos. 298, 303-306, 308-310, 324-326, 375-380 and 384-385 on Basement 2, Common Areas</p>	:	Ling Fung Development Limited (1,538/4,883), Wilmington Land Company Limited (870/4,883) and Quebostar Limited (2,475/4,883) (Tenants in Common)

## APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS

Car Parking Spaces Nos. 1-36, 50-53, : Quibonet Limited  
55-116 and 118-192 on Basement 1

(2) Belvedere Garden Phase 1 lay within an area zoned "Residential (Group A) 2"; Belvedere Garden Phase 2 lay within an area zoned "Residential (Group A) 3" and Belvedere Garden Phase 3 lay within an area zoned "Residential (Group A) 4" under approved Tsuen Wan Outline Zoning Plan No S/TW/28 dated 4 October 2011.

(3) The property was subject to the following encumbrances as at the Valuation Date:

### Belvedere Garden Phase 1

- Letter of Compliance vide memorial no TW464901 dated 4 September 1987.
- Deed of Mutual Covenant vide memorial no TW464903 dated 7 September 1987.
- Management Agreement (previously registered by memorial no 464904) in favour of Cayley Property Management Limited as "the Manager" vide memorial no TW475178 dated 7 September 1987.

### Belvedere Garden Phases 2 and 3

- No Objection Letter vide memorial no TW552461 dated 28 November 1988.
- Deed of Mutual Covenant vide memorial no TW627242 dated 5 January 1990.
- Sub-Deed of Mutual Covenant vide memorial no TW627243 dated 5 January 1990.
- Certificate of Compliance vide memorial no TW753243 dated 10 June 1991.
- Memorandum of Re-allocation vide memorial no TW1176167 dated 9 January 1997.
- Sub-Sub-Deed of Mutual Covenant vide memorial no TW1176168 dated 17 October 1997.
- Waiver Letter vide memorial no TW878559 dated 3 March 1993. (For Phase 3 Market on Ground Floor only)
- Waiver Letter vide memorial no TW1214446 dated 25 May 1998. (For Phase 3 Market on Ground Floor only)
- Chinese Management Agreement in favour of Hang Yick Properties Management Limited (by the Incorporated Owners of Belvedere Garden Phase 2) vide memorial no TW1535294 dated 4 August 2003. (For Phase 2 only)
- Sub-Deed of Mutual Covenant vide memorial no TW753245 dated 12 June 1991. (For Phase 3 only)
- Management Agreement in favour of Funing Property Management Limited as "Manager" vide memorial no 07081701700025 dated 28 July 2007. (For Phase 3 only)
- Deed in respect of the Sub-DMC & the areas vide memorial no 08033100970255 dated 27 March 2008. (For Phase 3 only)

(4) According to the information obtained from the Buildings Department, Belvedere Garden was subject to the following Occupation Permits:-

- i) Occupation Permit No NT111/87 dated 14 July 1987. (For Phase 1)
- ii) Occupation Permit No NT214/89 dated 16 October 1989. (For Phase 2)
- iii) Occupation Permit No NT47/91 dated 9 April 1991. (For Phase 3)

(5) We noted that the tenants of certain portions of the property with gross rentable area of about 41,737 sq.ft. may be using the tenanted premises or parts thereof for the purposes of elderly homes whilst, pursuant to the Government Land Grant, use of such area is designated for shops. In our view, whether the use of such area is the said existing use (i.e. elderly homes) or the permitted use under the Government Land Grant will not materially affect our valuation.

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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- (6) Based on the tenancy information provided, the tenancy profiles (excluding income from miscellaneous spaces and parking lots) as at the Valuation Date were set out below:-

**Tenancy Commencement Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2008 and before . . . . .	6.9%	4.8%
2009 . . . . .	24.9%	25.6%
2010 . . . . .	28.6%	36.0%
2011 . . . . .	39.6%	33.6%
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

**Tenancy Expiry Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
Monthly Tenancy . . . . .	0.7%	1.0%
2011 . . . . .	7.6%	8.0%
2012 . . . . .	44.0%	40.7%
2013 . . . . .	18.0%	32.6%
2014 . . . . .	29.7%	17.7%
2015 and beyond . . . . .	—	—
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

**Tenancy Duration Profile**

Tenancy Duration	% of total Gross Rentable Area	% of total Monthly Rental
Below and up to 2 years . . . . .	23.5%	32.7%
More than 2 years and up to 3 years . . . . .	76.4%	67.3%
More than 3 years . . . . .	0.1%	—
<b>Total</b> . . . . .	<b>100%</b>	<b>100%</b>

## **RETAIL MARKET OVERVIEW**

### **Stock**

The total private commercial stock in Hong Kong stood at 116 million sq ft IFA at the end of 2010 according to the Rating and Valuation Department ("RVD"). 41% of them were located in Kowloon, 29% on Hong Kong Island and 30% in the New Territories.

### **Take-Up and Vacancy**

The increase in tourist spending, in particular by the Mainland visitors coupled with the rebound of local consumer confidence, take-up of private commercial space increased significantly in 2010 to 1.5 million sq ft from 452,000 sq ft in 2009. As a result, the overall vacancy rate of retail premises fell from 8.7% in 2009 to 7.9% in 2010 according to the RVD's statistic.

### **Supply**

New supply of retail space in Hong Kong remained low in recent years, particularly after 2006. An average of 660,907 sq ft of retail space a year was completed during 2007-2010, 66.4% lower than 2006.

According to the RVD, in 2010, there was a total completion of 695,000 sq ft retail space over the territory, about 10% of which on Hong Kong Island, 66% in Kowloon and 24% in the New Territories. In 2011, there will be 612,000 sq ft of new completion and 1,110,000 sq ft in 2012, representing an average of 861,120 sq ft of retail space per year.

### **Rental Trend**

After falling 9.4% from the previous peak in mid-2008 to its trough in April 2009, retail rents returned to an uptrend swiftly after the local economy stabilized in 2009. Retail rents in Hong Kong grew 9% throughout 2010 and maintained its pace in 2011. In October 2011, retail rents in Hong Kong had surpassed its previous peak level in mid-2008 by about 15%. The private retail rental index marked a year on year increase of about 7% in October 2011, according to the December 2011 Supplement of the Hong Kong Property Review compiled by the RVD.

### **Price Trend**

The RVD's retail price index mainly reflects the prices of street shops, as shopping malls are rarely available for sale. In line with the rental market, retail property price quickly rebounded after bottom out in early 2009. Retail prices saw a 27% surge in 2010 and another 15% in the first ten months of 2011, showing no sign of abate. Prices now stand over 65% above the previous 2008 peak.

A major non-core retail investment was transacted in 1st half of 2011. It was the first acquisition by Link REIT (0823.HK) of Nan Fung Plaza in Tseung Kwan O, at a purchase price of HK\$1.17 billion and a passing yield of approximately 4.2%. The shopping centre has a total gross area of approximately 176,000 sq ft and was completed in 1999.

Following this, a Singapore fund also bought a complex, namely Festival Walk in Kowloon Tong at about HK\$18.913 billion (includes estimated net asset value of approximately HK\$113 million). The complex was completed in 1998 and comprises an office block of 228,665 sq ft, a shopping arcade of 980,089 sq ft and 923 covered car park spaces.

## **Outlook**

The influx of Mainland visitors has changed the landscape of the retail market in Hong Kong. According to the Hong Kong Tourism Board, the number of visitor arrivals to Hong Kong increased by 16.4% year on year in October 2011. During the same period, visitors from the Mainland remained dominant, comprising 67% of the total arrivals and the number of visitors from the other parts of the world was 33%.

The strong spending power of Mainland visitors gave confidence to retailers, particularly in prestigious locations, lead to the substantial growth in retail prices and rent over the past year.

Looking ahead, further growth in tourism visitors is expected which provide a support for retail sales increment. Retail property rents in prime shopping centres and areas are set to grow further in the next 12 months, anticipating a spill-over effect to the secondary areas as well. As such, we would expect the retail rent of non-core shopping centres that mainly serve the local residents will also grow in the coming year, though in a mild manner.

**B. SAVILLS PROPERTY VALUATION REPORT**

*The following is the text of the valuation report received from Savills Valuation and Professional Services Limited, an Independent Property Valuer, prepared for the purpose of inclusion in this Circular, in connection with the valuation of the New Properties as at 30 September 2011.*



Savills Valuation and  
Professional Services Limited  
23/F Two Exchange Square  
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savills.com

HSBC Institutional Trust Services (Singapore) Limited  
(as Trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01 HSBC Building  
Singapore 049320

ARA Asset Management (Fortune) Limited  
(as Manager of Fortune Real Estate Investment Trust)  
#16-02, Suntec Tower Four  
6 Temasek Boulevard  
Singapore 038986

28 December 2011

Dear Sirs

- RE: (1) PORTION OF BASEMENT, PORTION OF GROUND FLOOR AND PORTION OF UPPER GROUND FLOOR (EXCEPT CARPARKING SPACES, DRIVEWAY AND APPURTENANT AREAS, COMMON AREAS AND FACILITIES) AND SUB-BASEMENT, PROVIDENT CENTRE, 21-53 WHARF ROAD, NORTH POINT, HONG KONG ("PROVIDENT CENTRE PROPERTY")**
- (2) VARIOUS SHOPS ON GROUND FLOOR, KINDERGARTEN AND CLINIC NOS. 1, 2, 3 AND 4 ON MEZZANINE FLOOR, 25 CAR PARKING SPACES ON BASEMENT 2, 41 CAR PARKING SPACES AND 15 MOTOR CYCLE PARKING SPACES ON GROUND FLOOR OF BELVEDERE GARDEN PHASE 1, 530-590 CASTLE PEAK ROAD TSUEN WAN, TSUEN WAN, NEW TERRITORIES**

## APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS

KINDERGARTEN AND VARIOUS SHOPS ON GROUND FLOOR, SHOPS ON 1ST FLOOR, SHOPS ON 2ND FLOOR, 52 CAR PARKING SPACES ON GROUND FLOOR AND COMMON AREAS OF BELVEDERE GARDEN PHASE 2, 620 CASTLE PEAK ROAD TSUEN WAN, TSUEN WAN, NEW TERRITORIES

SHOPS ON BASEMENT 2, SHOPS AND MARKET ON GROUND FLOOR, KINDERGARTEN ON PODIUM, 19 CAR PARKING SPACES ON BASEMENT 2 AND 177 CAR PARKING SPACES ON BASEMENT 1 AND COMMON AREAS OF BELVEDERE GARDEN PHASE 3, 625 CASTLE PEAK ROAD TSUEN WAN, NEW TERRITORIES ("BELVEDERE GARDEN PROPERTY")

(COLLECTIVELY THE "PROPERTIES")

In accordance with instructions from the Manager for us to value the Properties, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 30 September 2011 (referred to as the "Valuation Date") for the purposes of the proposed acquisition of the properties by the Trustee.

### Basis of Valuation

Our valuation of each property is our opinion of its market value which we would define as intended to mean "the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a Property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with Chapter 6.8 of the REIT Code and The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

### Valuation Methodologies

In arriving at our opinion of values, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties. In the course of our valuation analysis, we have principally adopted the Income Capitalization Approach and counter-checked this by the Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalization Approach is the most appropriate valuation method for assessing the market values of the property, due to the income driven nature of the Properties.

### *Income capitalization*

The Income Capitalization Approach is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, Government rent and management fees) of all lettable units of each property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized for the unexpired term of the Government lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversion income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of each property.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalization rate adopted is determined by reference to the yields achieved in analysed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

### *Direct comparison*

As a supporting approach to the valuation, we have also considered the Direct Comparison Approach as a reference check for the valuations arrived from Income Capitalization Approach. In this regard, comparable sales transactions around the Valuation Date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the Properties and comparables in terms of time, location, accessibility, age, building quality and condition and the like.

### **Title Investigations**

We have not been provided with any title documents relating to the Properties but we have caused sample searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

### **Valuation Consideration**

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party, and have been advised by the instructing party that no material facts have been omitted from the information provided.



<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have inspected the exterior of the Properties valued and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the Properties are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

A summary of our opinion of the market value of each property as at the Valuation Date is given below:-

	<u>Property</u>	<u>Approximate Gross Rentable Area (sq ft)</u>	<u>No. of Car Parking Spaces</u>	<u>No. of Motorcycle Parking Spaces</u>	<u>Cap Rate</u>	<u>Market Value as at 30 September 2011</u>
1	Provident Centre Property . . .	180,238	NIL	NIL	5.0%	HK\$ 680,000,000
2	Belvedere Garden Property . . .	276,862	314	15	5.2%	HK\$1,340,000,000
	<b>Total . . . . .</b>	<b>457,100</b>	<b>314</b>	<b>15</b>		<b>HK\$2,020,000,000</b>

The reported analyses, opinions and conclusions are subject to the assumptions and limiting conditions stated in our valuation certificate and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Properties and are not a related corporation of nor do we have a relationship with the Trustee, the Manager or other party/parties who, Fortune REIT is contracting with. The valuer's compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the Vendor, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

We hereby certify that our valuers undertaking this valuation are authorized to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.

**APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS**

We enclose herewith our valuation certificate and market overview.

Yours faithfully  
For and on behalf of  
**Savills Valuation and Professional Services Limited**  
**Charles C K Chan**  
MSc FRICS FHKIS MCI Arb RPS(GP)  
*Managing Director*

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\* Mr Charles C K Chan, chartered estate surveyor, MSc, FRICS, FHKIS, MCI Arb, RPS(GP), has been a qualified valuer since June 1987 and has about 27 years experience in the valuation of properties in Hong Kong.

**VALUATION CERTIFICATE**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>	<u>Estimated Net Property Yield</u>	
1	<p>Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor (Except Carparking Spaces, Driveway, Appurtenant Areas, Common Areas and Facilities) and Sub-Basement, Provident Centre, 21-53 Wharf Road, North Point, Hong Kong ("Provident Centre Property")</p> <p>Portions in Inland Lot No. 8645.</p>	<p>Provident Centre is a private residential development with associated commercial / recreational / carparking facilities completed in between 1982 and 1984.</p> <p>The property comprises the entire retail premises of the development located on the Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor of the four-storey commercial / recreational / carparking podium of the development.</p> <p>The total gross rentable area of the property is approximately 16,744.52 sq m (180,238 sq ft).</p> <p>Inland Lot No. 8645 is held from the Government under a Government Lease for a term of 75 years commencing from 5 September 1921 renewable for a further term of 75 years.</p>	<p>The retail portion of the property is let under various tenancies for various terms yielding a total monthly rental income of about HK\$2,703,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>Various miscellaneous spaces are let under various licences at a total monthly income of approximately HK\$35,000 inclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at 30 September 2011 (excluding the miscellaneous spaces and Sub-Basement) is about 92.3%.</p>	HK\$680,000,000	4.8%

**Notes:**

- (1) The registered owner of the property is Provident Commercial Investments Limited.
- (2) The property lies within an area zoned "**Residential (Group A) 2**" under North Point Outline Zoning Plan.
- (3) According to the land search records, the property, *inter alia*, is subject to the following encumbrances:-
  - i) Occupation Permit No. H143/82 vide memorial no. UB2335693 dated 8 November 1982 (re: Phase 1 of the development only);
  - ii) Deed of Mutual Covenant vide memorial no. UB2372289 dated 24 January 1983;
  - iii) Sub-Lease in respect of Portion of Ground Floor and Portion of Basement in favour of The Financial Secretary Incorporated vide memorial no. UB7050948 dated 20 February 1997; and
  - iv) Deed Poll in respect of Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor of the development vide memorial no. UB7232788 dated 31 July 1997.
- (4) The property is further subject to the following Occupation Permits as follows:-
  - i) Occupation Permit No. H185/83 dated 18 November 1983 (re: Phase 2 of the development only); and
  - ii) Occupation Permit No. H49/84 dated 9 May 1984 (re: Stage 2 of Phase 2 of the development only).
- (5) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the tenant is to be responsible for internal repairs of the property.
- (6) The rentals reported herein are contractual rentals without taking into account rent free periods, if any.
- (7) Estimated net property yield is based on the net monthly rental and licence income of the retail portion and miscellaneous spaces for September 2011.

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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- (8) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding income from miscellaneous spaces) is set out below:-

**Tenancy Commencement Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2008 or before . . . . .	0.8	0.4
2009 . . . . .	60.3	49.2
2010 . . . . .	25.3	28.7
2011 . . . . .	13.6	21.7
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

**Tenancy Expiry Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2011 . . . . .	40.8	40.0
2012 . . . . .	23.3	21.2
2013 . . . . .	15.8	18.0
2014 . . . . .	20.1	20.8
2015 and beyond . . . . .	0.0	0.0
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

**Tenancy Duration Profile**

Tenancy Duration	% of total Gross Rentable Area	% of total Monthly Rental
Below and up to 2 years . . . . .	21.1	25.0
More than 2 years and up to 3 years . . . . .	64.4	68.5
More than 3 years . . . . .	14.5	6.5
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

**APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>	<u>Estimated Net Property Yield</u>
<p>2 Various Shops on Ground Floor, Kindergarten and Clinic Nos. 1, 2, 3 and 4 on Mezzanine Floor, 25 Car Parking Spaces on Basement 2, 41 Car Parking Spaces and 15 Motor Cycle Parking Spaces on Ground Floor of Belvedere Garden Phase 1, 530-590 Castle Peak Road Tsuen Wan, Tsuen Wan, New Territories</p> <p>Kindergarten and Various Shops on Ground Floor, Shops on 1st Floor, Shops on 2nd Floor, 52 Car Parking Spaces on Ground Floor and Common Areas of Belvedere Garden Phase 2, 620 Castle Peak Road Tsuen Wan, Tsuen Wan, New Territories</p> <p>Shops on Basement 2, Shops and Market on Ground Floor, Kindergarten on Podium, 19 Car Parking Spaces on Basement 2 and 177 Car Parking Spaces on Basement 1 and Common Areas of Belvedere Garden Phase 3, 625 Castle Peak Road Tsuen Wan, Tsuen Wan, New Territories</p> <p>(Belvedere Garden Property)</p> <p>Portions in Tsuen Wan Town Lot No. 308.(Re: Belvedere Garden Phase 1)</p>	<p>Belvedere Garden is a private residential development comprising three phases with associated commercial, recreational and carparking facilities completed in phases between 1987 and 1990.</p> <p>The retail portion of the property comprises various commercial areas within Belvedere Garden. Descriptions of the said commercial areas are set out below:-</p> <ul style="list-style-type: none"> <li>— Shops Nos. 1 to 7 on the Ground Floor, Clinics Nos. 1-4 and the kindergarten on the Mezzanine Floor of the commercial podium of Phase 1 of the development;</li> <li>— Shops Nos. 1-10 and 12 and the kindergarten on the Ground Floor; Shops on the 1st and 2nd Floors of the commercial podium of Phase 2 of the development; and</li> <li>— Shops on Basement 2, Shops and the Market on the Ground Floor and the kindergarten on the Podium Level of the commercial podium of Phase 3 of the development.</li> </ul> <p>The total gross rentable area of the property is approximately 25,721.11 sq m (276,862 sq ft).</p> <p>The property also comprises 314 car parking spaces and 15 motor cycle parking spaces on the Basement 2, Basement 1 and Ground Floors of the commercial podiums of the development.</p>	<p>The retail portion of the property is let under various tenancies for various terms yielding a total monthly rental income of about HK\$5,280,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>Various miscellaneous spaces are let under various licences at a total monthly income of approximately HK\$37,000 inclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at 30 Sep 2011 (excluding the car parking spaces and miscellaneous spaces) is 98.7%.</p> <p>The car parking spaces of the property are let on monthly / hourly basis with an average net monthly income of about HK\$312,000 from July 2010 to June 2011.</p>	<p>HK\$1,340,000,000</p>	<p>5.0%</p>

**APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS**

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 September 2011</u>	<u>Estimated Net Property Yield</u>
Portions in Tsuen Wan Town Lot No. 316. (Re: Belvedere Garden Phases 2 and 3)	<p>Tsuen Wan Town Lot No. 308 is held from the Government under New Grant No. 6583 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047.</p> <p>Tsuen Wan Town Lot No. 316 is held from the Government under New Grant No. 6639 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047.</p>			

**Notes:**

- (1) The numbering of the car parking spaces of the property is summarized as below:-

<u>Phase</u>	<u>Floor</u>	<u>No. of Parking Space</u>	<u>Car Park Numbering</u>
Phase 1 . . . . .	Basement 2	25	Nos. 12-13, 16-25, 33-37, 40-41, 43-44, 47-49 and 51.
	Ground Floor	41	Nos. 16, 22, 23-29, 32, 34-35, 37-45, 47 and 50-68.
Phase 2 . . . . .	Ground Floor	15	15 Motor Cycle Parking Spaces.
	Ground Floor	52	Nos. 51-77, 114, 117, 118, 121, 126-135 and 137-147.
Phase 3 . . . . .	Basement 2	19	Nos. 298, 303-306, 308-310, 324-326, 375-380 and 384-385.
	Basement 1	177	Nos. 1-36, 50-53, 55-116 and 118-192.

- (2) The various registered owners of the property are as follows:-

<u>Phase</u>	<u>Unit</u>	<u>Registered Owner</u>
Phase 1 . . . . .	Shop Nos. 1-6 on Ground Floor, Clinic Nos. 1-4 and Kindergarten on Mezzanine Floor and 15 Motor Cycle Parking Spaces on Ground Floor	Bysean Limited
	Shop No. 7 on Ground Floor, 41 Car Parking Spaces on Ground Floor and 25 Car Parking Spaces on Basement 2	Quibonet Limited
Phase 2 . . . . .	Shop Nos. 1 to 10, 12 and Kindergarten on Ground Floor, Shops on 1st Floor and Shops on 2nd Floor, 52 Car Parking Spaces on Ground Floor and Common Areas	<p><b>Tenants in Common:</b> Ling Fung Development Limited (1,538/4,883) Wilmington Land Company Limited (870/4,883) Quebostar Limited (2,475/4,883)</p>
Phase 3 . . . . .	Shops on Basement 2, Shops and Market on Ground Floor and Kindergarten on Podium, 19 Car Parking Spaces on Basement 2 and Common Areas	<p><b>Tenants in Common:</b> Ling Fung Development Limited (1,538/4,883) Wilmington Land Company Limited (870/4,883) Quebostar Limited (2,475/4,883)</p>
	177 Car Parking Spaces on Basement 1	Quibonet Limited

- (3) Phase 1, Phase 2 and Phase 3 of the property each lies within an area zoned "Residential (Group A)2", "Residential (Group A)3" and "Residential (Group A)4" respectively under Tsuen Wan Outline Zoning Plan.

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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(4) According to the land search records, *inter alia*, is subject to the following encumbrances:

**Phase 1**

- i) Letter of Compliance vide memorial no. TW464901 dated 4 September 1987;
- ii) Deed of Mutual Covenant vide memorial no. TW464903 dated 7 September 1987; and
- iii) Management Agreement (previously registered by memorial no. 464904) in favour of Cayley Property Management Limited as "**the Manager**" vide memorial no. TW475178 dated 7 September 1987.

**Phase 2 and 3**

- i) No Objection Letter vide memorial no. TW552461 dated 28 November 1988;
- ii) Deed of Mutual Covenant vide memorial no. TW627242 dated 5 January 1990;
- iii) Sub-Deed of Mutual Covenant vide memorial no. TW627243 dated 5 January 1990;
- iv) Certificate of Compliance vide memorial no. TW753243 dated 10 June 1991;
- v) Sub-Deed Of Mutual Covenant vide memorial no. TW753245 dated 12 June 1991 (re: Phase 3 only);
- vi) Memorandum of Re-allocation vide memorial no. TW1176167 dated 9 January 1997;
- vii) Sub-Sub-Deed of Mutual Covenant vide memorial no. TW1176168 dated 17 October 1997;
- viii) Waiver Letter vide memorial no. TW1214446 dated 25 May 1998 (re: Portion of the Market on Ground Floor of Phase 3 only);
- ix) Chinese Management Agreement in favour of Hang Yick Properties Management Limited by the Incorporated Owners of Belvedere Garden Phase 2 vide memorial no. TW1535294 dated 4 August 2003 (re: Phase 2 only);
- x) Management Agreement in favour of Funing Property Management Limited as "**Manager**" vide memorial no. 07081701700025 dated 28 July 2007 (re: Phase 3 only);
- xi) Waiver Letter vide memorial no. TW878559 dated 3 Mar 1993 (re: Market of Phase 3 only); and
- xii) Deed in respect of the Sub-DMC and the Areas vide memorial no. 08033100970255 dated 27 March 2008 (re: Common Areas of Phase 3 only).

(5) The property is further subject to the following Occupation Permits as follows:-

**Phase 1**

Occupation Permit No. NT111/87 dated 14 July 1987.

**Phase 2**

Occupation Permit No. NT214/89 dated 16 October 1989.

**Phase 3**

Occupation Permit No. NT47/91 dated 9 April 1991.

- (6) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (7) The rentals reported herein are contractual rentals without taking into account rent free periods, if any.
- (8) Estimated net property yield is based on the net monthly rental and licence income of the retail portion and miscellaneous spaces for September 2011 and the average net monthly income of the parking lots for the period of January 2011 to June 2011.

<b>APPENDIX 4 INDEPENDENT PROPERTY VALUERS' NEW PROPERTIES VALUATION REPORTS</b>
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- (9) We noted that the tenants of certain portions of the property with gross rentable area of about 41,737 sq.ft. may be using the tenanted premises or parts thereof for the purposes of elderly homes whilst, pursuant to the Government Land Grant, use of such area is designated for shops. In our view, whether the use of such area is the said existing use (i.e. elderly homes) or the permitted use under the Government Land Grant will not materially affect our valuation.
- (10) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding income from car parking spaces and miscellaneous spaces) is set out below:-

**Tenancy Commencement Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
2008 or before . . . . .	6.9	4.8
2009 . . . . .	24.9	25.6
2010 . . . . .	28.6	36.0
2011 . . . . .	39.6	33.6
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

**Tenancy Expiry Profile**

Year	% of total Gross Rentable Area	% of total Monthly Rental
Monthly . . . . .	0.7	1.0
2011 . . . . .	7.6	8.0
2012 . . . . .	44.0	40.7
2013 . . . . .	18.0	32.6
2014 . . . . .	29.7	17.7
2015 and beyond . . . . .	0.0	0.0
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

**Tenancy Duration Profile**

Tenancy Duration	% of total Gross Rentable Area	% of total Monthly Rental
Below and up to 2 years . . . . .	23.5	32.7
More than 2 years and up to 3 years . . . . .	76.4	67.3
More than 3 years . . . . .	0.1	0.0
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>



## Market Overview

The total stock of private commercial premises<sup>1</sup> in Hong Kong increased by 138.0% between 1980 and 2010, with total stock at the end of 2010 at 115.7 million sq ft<sup>2</sup>. In 2010, more than 41% of private commercial stock was located in Kowloon, while Hong Kong Island and the New Territories accounted for around 29% and 30% of the remaining commercial stock respectively.

The negative take-up of retail space in 2008 is the result of demand contraction on the back of the global financial crisis, when a number of chain retailers closed in Hong Kong, examples being Tai Lam and U-Right, which both closed towards the end of that year. Vacancy rates increased to 8.7% in 2008 as a result. Take-up of retail space rebounded strongly to 1.5 million sq ft in 2010 with the vacancy rate dropping to 7.9%

The majority of new retail supply currently scheduled for completion is being built in Kowloon and many of the new shopping centres forecast for completion by 2013 are small in scale with a GFA of less than 200,000 sq ft. Supply of major shopping centres in Hong Kong is expected to fall to an average of 672,000 sq ft<sup>3</sup> per annum between 2011 and 2014, with the highest proportion of new centres located in Kowloon, representing 48%.

There will be two major retail developments completed in Kowloon in 2013 including the extension of Ocean Terminal in Tsim Sha Tsui and Kowloon Development's Ngau Chi Wan project. There is one major new development, Hysan Place in Causeway Bay, which is expected to be completed in 2012. In terms of major new supply in the New Territories, a total of 626,000 sq ft of retail GFA from three developments in Tseung Kwan O (Area 56, 215,000 sq ft), Tuen Mun (Tuen Mun Station, 269,000 sq ft) and Ma On Shan (Lok Wo Sha project, 142,000 sq ft) are scheduled to come on stream over 2011 to 2013.

The strong rebound in the local economy, as well as the implementation of the Individual Visit Scheme (IVS), induced a strong recovery in the retail market, and private retail rents increased by around 42% from 2003 to 2010. Average prime shopping centre rents in Hong Kong stood at HK\$216 per sq ft gross at the end of 2010<sup>4</sup>, surpassing their 1997 peak.

The robust tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rents in 2011. After a marginal downward adjustment of 1.2%, retail rents returned to their uptrend trend and rose for seven consecutive months beginning in February 2011. Year-to-date, retail rents have grown by 7.3% over the first eight months of 2011.

<sup>1</sup> Defined by the Rating and Valuation Department, private commercial premises include retail premises and other premises designed or adopted for commercial use, with the exception of purpose-built offices. Car park space is excluded.

<sup>2</sup> According to the Rating and Valuation Department, from 2006 onwards, private commercial stock figures include properties owned by The Link REIT, which had a total Internal Floor Area (IFA) of 10.3 million sq ft in 2006.

<sup>3</sup> GFA is the area contained within the external walls of the building measured at each floor level, including any floor below the level of the ground, and excluding any floor space which the Building Authority is satisfied was constructed or intended to be used solely for parking motor vehicles, the loading or unloading of motor vehicles or occupied solely by machinery or equipment for any lift, air-conditioning or heating systems or any similar service.

<sup>4</sup> Source: Savills Research & Consultancy

Prices of private retail space in Hong Kong have generally followed the same trend as rents. Prices grew along with rising rents from 1984, but have been rising more swiftly since the early 1990s, fuelled by negative real interest rates. An increase of 650% was recorded over the 1984 to 1994 period, representing average annual growth of 21%. A marginal decline in prices was recorded in 1995 but values rose again in 1996 and 1997. Asset deflation took hold after the financial crisis and prices dropped by 52% in 2002. After rising by more than 201% from the trough in 2003 to 2010, yield compression became a stumbling block for most investors looking for investment properties.

The retail investment market has been very active in 2011. Prices of private retail premises in Hong Kong have recorded a growth of 12.8% over the first five months of 2011. Nevertheless, availability of stock and the increasing cost of capital slowed the growth rate in June and July to 0.6% month-on-month respectively.

Despite the recent global economic uncertainties, as well as further tightening measures in China, the retail sector performance is well supported by both local consumption and visitor spending, which both look set to remain strong over the near future.

*The following is the reproduction of the text of a letter received from Savills (Hong Kong) Limited, the Market Consultant, for the purpose of incorporation in this circular.*



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28 December 2011

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6 Temasek Boulevard  
Singapore 038986

HSBC Institutional Trust Services (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01, HSBC Building  
Singapore 049320

Dear Sir,

As requested we have prepared a Retail Market Overview for ARA Asset Management (Fortune) Limited, in its capacity as manager of Fortune Real Estate Investment Trust. The report includes an overview of the retail sector in Hong Kong and an assessment of the two shopping centres to be included in Fortune Real Estate Investment Trust in the form of a Catchment Analysis. The two shopping centres are Belvedere Garden in Tsuen Wan and Provident Centre in North Point.

## **1.0 RETAIL MARKET OVERVIEW**

### **1.1 Economic overview**

#### **1.1.1 International comparisons**

Hong Kong is one of the world's most open and dynamic economies, benefiting from its strategic location, acting as a gateway to mainland China ("China" or the "mainland"), and its location in a time zone between Asia and Europe. Hong Kong performs an important role as an international finance, trade, business and

communications centre. The Hong Kong Stock Exchange was ranked seventh among the world's major stock markets<sup>1</sup> in terms of market capitalisation in the first eleven months of 2011 and third largest in Asia after the Tokyo and Shanghai stock exchanges. In terms of merchandise trade, Hong Kong was the ninth and 11th largest importer and exporter respectively in the world in 2010<sup>2</sup>.

In terms of economic strength and competitiveness, Hong Kong is highly ranked compared with other countries in the world and in 2010, Hong Kong's gross domestic product (GDP) per capita stood at US\$45,943<sup>3</sup> (adjusted for purchasing power parity), ranking it ahead of the UK, Switzerland, Japan and Australia. Hong Kong has been ranked the freest economy by the Heritage Foundation in 2011, the 17th consecutive year that it has maintained such a status<sup>4</sup>. Moreover, Hong Kong scores well in the World Competitiveness Scorecard<sup>5</sup>, compiled by the Swiss-based International Institute for Management and Development. In 2011, Hong Kong was ranked the most competitive economy alongside the US, with Singapore and Sweden ranking third and fourth, respectively. In terms of trade efficiency, Hong Kong also ranks highly in a global context, and is in second place in the 2010 Enabling Trade Index, after Singapore<sup>6</sup>.

### 1.1.2 Closer integration with mainland China

Since the introduction of the mainland's open door policy in 1978, Hong Kong has developed even closer links with mainland China and this will remain one of the key factors in the future economic growth of Hong Kong. In support of this, the Hong Kong SAR Government and the Central People's Government reached an agreement on 29 June 2003 to lay down measures governing Hong Kong's trade with the mainland under the Closer Economic Partnership Arrangement (CEPA) and both parties signed seven supplements to CEPA from 2004 to 2010 to further tighten cooperation. Concessions granted under CEPA give Hong Kong companies a first-move advantage and encourage better synchronisation in cross-boundary financial activity, goods production and distribution, service provision and recognition of professional qualifications.

Under the Individual Visit Scheme (IVS), which was first introduced in July 2003 as a liberalisation measure under CEPA, residents of selected mainland cities may visit Hong Kong in their own capacity. The coverage of the IVS has expanded over the past eight years and is now implemented in 49 mainland cities, covering approximately 270 million residents in total. In the first three quarters of 2011, mainland Chinese residents made more than 13.27 million trips to Hong Kong under IVS, a 29.2% year-on-year increase. These visitors accounted for 65.1% of all mainland visitors travelling to Hong Kong or 43.6% of total visitor arrivals over the period<sup>7</sup>. The latest arrangement, effective from 15 December 2010, allows migrant workers in Shenzhen, including businessmen and workers at state-owned, private or foreign companies, to apply for individual travel visas to Hong Kong in Shenzhen instead of returning to their home provinces, a move which is expected to strengthen already strong mainland arrivals figures.

<sup>1</sup> Source: World Federation of Exchanges

<sup>2</sup> Source: World Trade Organization

<sup>3</sup> Source: International Monetary Fund, World Economic Outlook Database, September 2011

<sup>4</sup> Source: 2011 Index of Economic Freedom, The Heritage Foundation

<sup>5</sup> Source: World Competitiveness Yearbook 2011, International Institute for Management and Development

<sup>6</sup> Source: The Global Enabling Trade Report 2010, World Economic Forum

<sup>7</sup> Source: Hong Kong Tourism Board (HKTb)

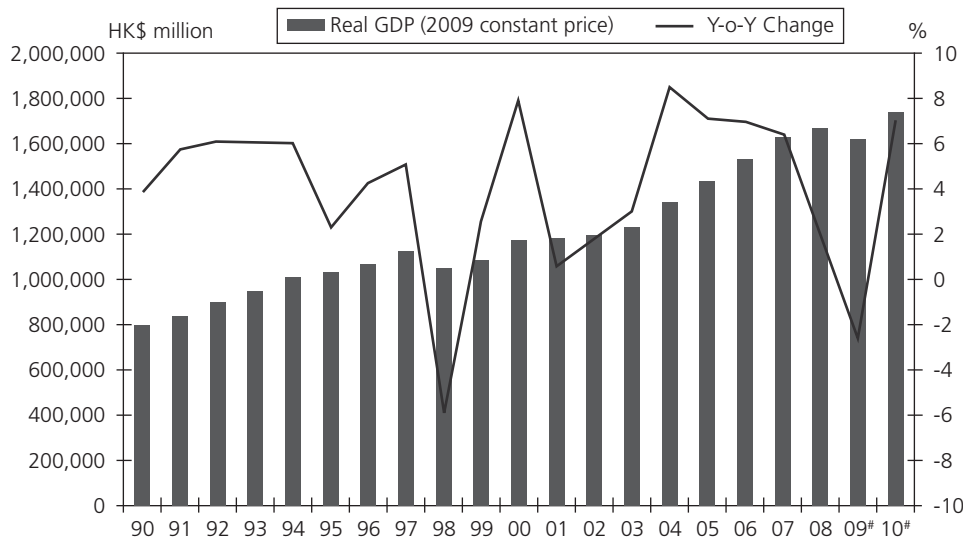
## 1.2 Key economic and tourism indicators

### 1.2.1 Key economic indicators

Hong Kong's economy has seen strong growth since the downturn during the severe acute respiratory syndrome crisis in 2003, with the closer integration of mainland China and the flourishing financial and trading sectors inducing average real GDP growth of 6.4% per annum from 2003 to 2007. Nevertheless, the global economic slowdown as a result of the sub-prime mortgage crisis in 2009 has adversely affected the local economy, and as such real GDP growth slowed significantly to 2.3% in 2008, and recorded a decline of 2.7% in 2009 during the global crisis, the first annual decline in quarterly GDP since the Asian financial crisis in 1998. The economy rebounded quickly partly as a result of quantitative easing measures introduced by many global economies, with GDP registering a staggering 7.0% growth in 2010.

A continuously strong global economic performance, in particular the robust Chinese economy, induced further growth in the local economy at the beginning of 2011 with GDP increasing by 7.5% year-on-year in Q1/2011, the strongest figure since Q3/2005. However, with global economic uncertainties looming again, economic growth slowed to 4.3% year-on-year in Q3/2011.

**Hong Kong real GDP and YoY growth, 1990-2010**



Source: Census and Statistics Department, Savills Research & Consultancy

# Provisional Figures

Private consumption expenditure<sup>8</sup> is a major expenditure component of GDP, which averaged 65.3% of GDP in real terms from 1990 to 2010. Private consumption expenditure also demonstrated a marked resilience during the downturn, with growth slowing to 0.7% in 2009 rather than declining. The economic rebound induced robust consumer sentiment and with improving income conditions, private consumption expenditure recorded a 6.2% growth in 2010, followed by an 9.7% and 8.8% year-on-year increase in Q2 and Q3/2011 respectively.

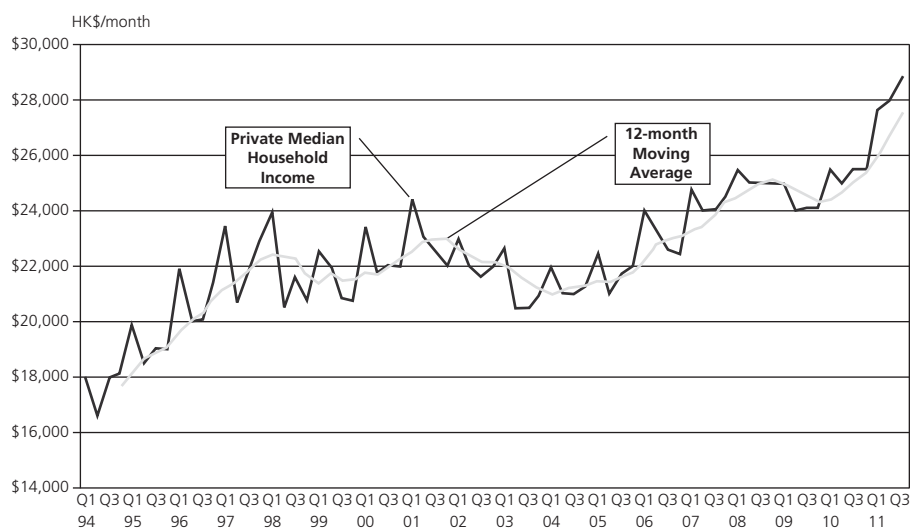
<sup>8</sup> Private consumption expenditure refers to the final consumption expenditure on goods and services by households and private non-profit institutions serving households. It is calculated as the sum of consumption expenditure on goods and services in the domestic market and the expenditure of Hong Kong residents abroad, less the expenditure of non-residents in the domestic market. Source: Census and Statistics Department

The seasonally adjusted unemployment rate increased from a ten-year low of 3.2% for the three months ending in August 2008 to 5.5% for the three months ending in August 2009, reflecting the rapid worsening of the employment situation as the global economy deteriorated. The employment situation has since improved considerably with the swift economic recovery and unemployment rates gradually declined from the 5.5% peak to 3.4% for the three months ending in November 2011, a new low since the Asian financial crisis in 1998, and a level signifying virtually total employment and strong local demand for labour.

Hong Kong's prolonged period of deflation came to an end in mid-2004 as a result of the improving economic conditions, strong consumer demand and higher import prices, and inflation rates have remained positive since, with the exception of a brief decline in January 2005. The composite Consumer Price Index (CPI) recorded an increase of 2.0% in 2007 and 4.3% in 2008. Inflation reverted to negative territory from June to September 2009, mainly due to receding price pressures as the economy adjusted downwards, as well as some one-off government relief measures. Composite CPI increased again, due to the booming economy, to register a 0.5% and 2.4% growth in 2009 and 2010 respectively.

Inflationary pressure continued to increase during the first ten months of 2011 with the composite CPI climbing by 5.2% over the period, mainly due to external (imported inflation due to escalating global food and commodity prices) and internal (the feed-through effect of higher residential rents and the one-off effect of the statutory minimum wage) factors.

#### Private median monthly household incomes, Q1/1994-Q3/2011



Source: Census & Statistics Department, Savills Research & Consultancy

Private median monthly household income is the primary measure of the incomes of the Hong Kong population living in private housing estates. The previous peak was recorded in Q1/2008 with the median income reaching HK\$25,500 per month, but the subsequent global crisis has caused a dip in income to HK\$24,000 per month. The following economic recovery, which led to record low unemployment rates, exerted upward pressure on private incomes, which rose to HK\$28,800 per month in Q3/2011, a new high since 1994. These higher income levels are inevitably prompting more domestic retail spending.

Aside from record high incomes, escalating residential prices over the past two years have also created a tremendous amount of equity for many families who have demonstrated a higher propensity to spend. According to the Rating and Valuation Department, overall residential prices increased by a staggering 71.0% from Q4/2008 to Q3/2011, reaching a record high level, 8.9% higher than the previous peak in 1997.

### 1.2.2 Economic forecasts

The global economy has been overshadowed by uncertainties in both the US and the eurozone recently, with stock market corrections and fragile investment sentiment. Further tightening measures on the mainland have cast further doubts over the local economic outlook. Real GDP is forecast to increase by 5.1% in 2011 before reverting to more normal growth of 4.2% in 2012. The long-term forecast for real GDP growth (2013 to 2015) is that it will reach 4.3% per annum, similar to the average of the past ten years.

Private consumption is expected to follow a similar pattern with an expected 7.4% growth in 2011, followed by a much slower 4.5% growth in 2012 and a long-term growth rate of 4.1% per annum. Unemployment rates are forecast to range from 3.3% to 3.5% over the next five years, suggesting that the employment market is expected to stay healthy. Inflation is expected to reach a ten-year high of 5.3% in 2011, before gradually falling to 4.3% in 2012, with an average of 3.2% per annum from 2013 to 2015.

#### Hong Kong economic forecast data, 2011E-2015E

	2011E	2012E	2013E	2014E	2015E
% YoY growth					
GDP .....	5.1	3.9	4.4	4.2	4.2
Private consumption .....	7.4	4.5	4.4	4.0	4.0
Unemployment rate (%) .....	3.4	3.4	3.3	3.4	3.5
Consumer prices .....	5.3	4.3	3.5	3.1	3.1

Source: FocusEconomics Consensus Forecast Asia, Savills Research & Consultancy

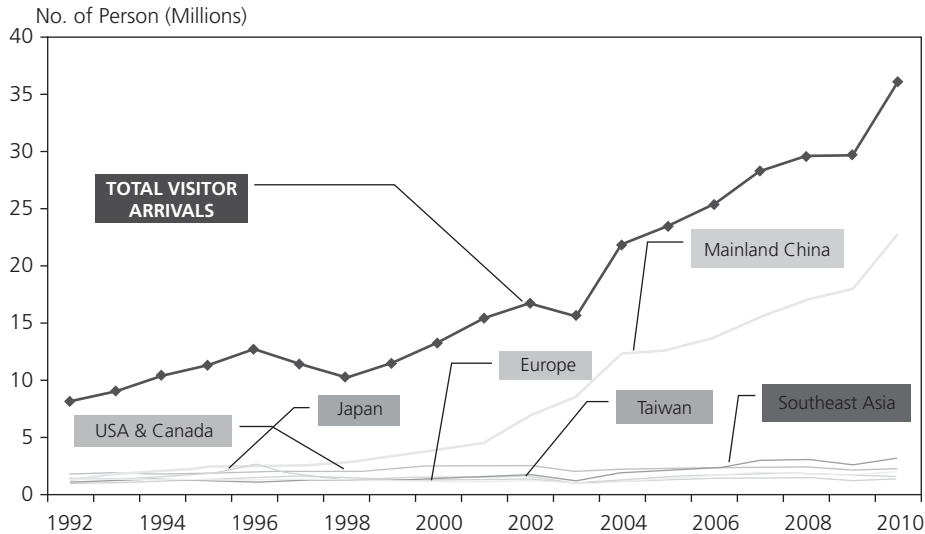
Note: 2011-2015 forecast based on December 2011 issue

### 1.2.3 Tourist market

Hong Kong ranked second in Asia (just behind Singapore) and 12th in the world in terms of travel and tourism competitiveness, according to the Travel & Tourism Competitiveness Index in 2011 compiled by the World Economic Forum, which covers 139 countries around the world.

Since the implementation of IVS in 2004, visitor arrivals, in particular those from the mainland, have been increasing dramatically from 8.5 million in 2003 to 22.7 million in 2010, a 167.9% increase. The tremendous growth in mainland Chinese arrivals since IVS implementation has made them the single most important source of tourists to Hong Kong and in 2010 their number represented approximately 63.0% of that year's total.

**Visitor arrivals by major market of origin, 1992-2010**



Source: HKTB, Savills Research & Consultancy

Visitor arrivals continued to see robust growth over the first ten months of 2011 with 34.2 million visitors arriving in Hong Kong, representing a 16.2% year-on-year growth rate. As expected, mainland arrivals represented the lion's share with 22.9 million or 67.0% of visitors and the staggering 23.7% year-on-year growth rate is almost the only above-average growth among major markets of origin.

**Visitor arrivals by country/territory, Jan-Oct 2011**

<u>Country/territory</u>	<u>Visitor arrivals</u> (‘000)	<u>YoY change</u>
The Americas . . . . .	1,493.4	+3.3%
Europe, Africa and the Middle East . . . . .	1,807.8	+0.9%
Australia, New Zealand and South Pacific . . . . .	629.3	-1.1%
Japan . . . . .	1,034.6	-4.4%
South Korea . . . . .	841.6	+15.8%
South and Southeast Asia . . . . .	2,985.3	+7.3%
Taiwan . . . . .	1,820.5	+0.3%
Macau* . . . . .	678.7	+9.1%
Mainland China . . . . .	22,926.4	+23.7%
Total/weighted average . . . . .	34,217.5	+16.2%

Source: HKTB, Savills Research & Consultancy  
 \*Includes "Not Identified" category



According to the UN World Travel Organization, international tourist arrivals grew by 4.5% worldwide in the first half of 2011 reaching 440 million visitors, while arrivals for the Asia-Pacific region increased at a slightly faster pace of 5.1% over the same period. Hong Kong's tourism market, with strong support from mainland arrivals, outperformed and recorded a growth of 14.7% in visitor arrivals over the first six months of 2011.

The weakening of the dollar against major currencies has also helped make shopping in Hong Kong "cheaper" in the eyes of non-US-dollar zone visitors. With the US dollar peg, the Hong Kong dollar has depreciated considerably against many major currencies in Asia Pacific from 2009, which has added to its price competitiveness in attracting both international and regional arrivals.

#### Hong Kong dollar depreciation against major currencies, Jan 2009 – Nov 2011

<u>Country/territory</u>	<u>Change in exchange rate</u>
Australia .....	-36.3%
China .....	-7.8%
Japan .....	-13.7%
Malaysia .....	-12.3%
Singapore .....	-14.4%
South Korea .....	-17.4%
Taiwan .....	-10.5%
Thailand .....	-10.9%
The Philippines .....	-8.2%

Source: Hong Kong Monetary Authority, Savills Research & Consultancy

The free port status of Hong Kong has also helped the retail sector, in particular the luxury goods market in which most mainlanders are interested. The same luxury goods sold in Hong Kong can easily be marked up 20% to 30% in price in the mainland with a 17% Value-added Tax (VAT), with a further 10% to 30% reflecting tariffs on luxury goods, etc. Its tax-free status has made Hong Kong an automatic choice for luxury shopping, especially among mainlanders.

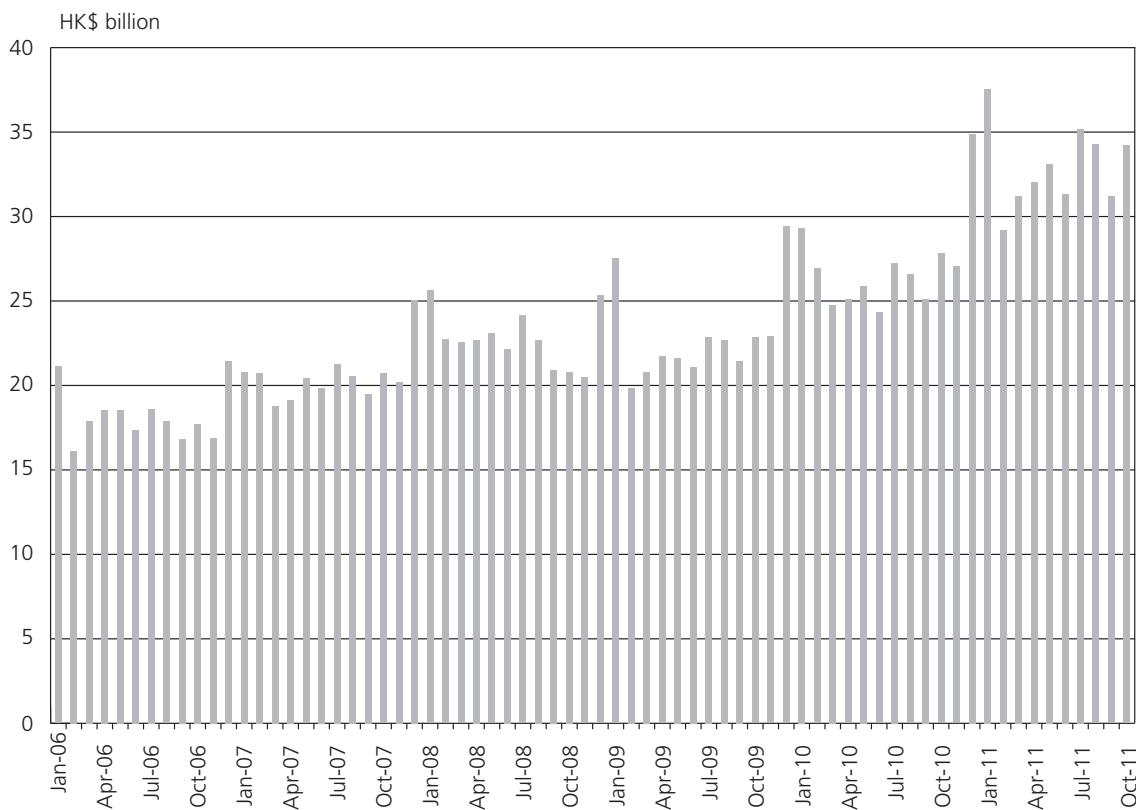
1.3 Retail market overview

1.3.1 Retail sales performance

*Total retail and restaurant sales*

Retail sales have grown strongly over the past few years thanks to the robust local economy, which led to strong local spending, as well as the growing dominance of mainland visitors who spent heavily on shopping. Despite a small dip towards the end of 2008 and early 2009 when the global crisis dampened spending, retail sales registered growth of 10.6%, 0.6% and 18.3% in 2008, 2009 and 2010 respectively. The first ten months of 2011 saw another 25.2% growth year-on-year.

**Retail sales value, Jan 2006 – Oct 2011**



Source: Census & Statistics Department, Savills Research & Consultancy

Restaurant receipts also followed a similar pattern, as retail sales growth of 13.1%, 0.6% and 5.1% was recorded in 2008, 2009 and 2010 respectively. Robust local demand has been the key driver of the F&B sector and the rising incomes and good employment conditions contributed to more generous spending on F&B in the first three quarters of 2011, when we saw a 6.0% increase over the period.

*Retail sales by trade category*

In terms of trade category, the best performing subsector so far this year is jewellery, watches and clocks, and valuable gifts, which recorded an astonishing 50.5% increase in the first ten months of 2011 on the back of strong mainland interest. This was followed by clothing, footwear and allied products, as well as consumer durable goods, both favourite items among mainland visitors, as well as local shoppers, which registered 29.2% and 27.1% growth over the same period respectively.

**Percentage change in retail sales by category, Jan – Oct 2011 over Jan – Oct 2010**

<u>Trade category</u>	<u>Jan-Oct 2011 over Jan-Oct 2010</u>
<b>Food, alcoholic drinks and tobacco</b> .....	<b>+6.9%</b>
<b>Supermarket</b> .....	<b>+12.3%</b>
<b>Fuel</b> .....	<b>+15.4%</b>
<b>Clothing, footwear and allied products</b> .....	<b>+29.2%</b>
<b>Consumer durable goods</b> .....	<b>+27.1%</b>
— <i>Motor vehicles and parts</i> .....	<b>+12.6%</b>
— <i>Electrical goods and photographic equipment</i> .....	<b>+31.4%</b>
— <i>Furniture and fixtures</i> .....	<b>+8.3%</b>
— <i>Other consumer durable goods, not elsewhere classified</i> .....	<b>+77.0%</b>
<b>Department stores</b> .....	<b>+21.0%</b>
<b>Jewellery, watches and clocks, and valuable gifts</b> .....	<b>+50.5%</b>
<b>Other consumer goods</b> .....	<b>+17.3%</b>

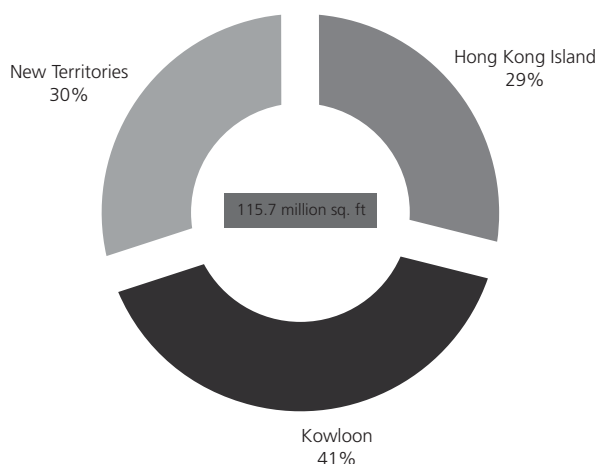
Source: Census and Statistics Department, Savills Research & Consultancy

### 1.3.2 Stock and supply

#### *Existing stock*

The total stock of private commercial premises<sup>9</sup> in Hong Kong increased by 138.0% between 1980 and 2010, with total stock at the end of 2010 at 115.7 million sq ft<sup>10</sup>. In 2010, more than 41% of private commercial stock was located in Kowloon, while Hong Kong Island and the New Territories accounted for around 29% and 30% of the remaining commercial stock respectively.

**Total private commercial stock by district, 2010**



#### *New supply*

Private commercial supply averaged approximately 2.0 million sq ft between 1980 and 2010 per annum. However, supply levels were significantly lower in the 2000s compared with the previous two decades. Shopping centre supply reached a recent peak in 2006 when some 2.0 million sq ft was completed, including some larger scale malls such as Elements in Tsim Sha Tsui and MegaBox located in Kowloon Bay.

**Private commercial supply, 1980-2010 average and 2011-2014 forecast**

<u>Period/year</u>	<u>Supply</u> (sq ft)
1980-2010 .....	2,019,153 (per annum)
2011E .....	215,000
2012E .....	1,171,000
2013E .....	916,106
2014E .....	387,732

Source: Rating and Valuation Department, Savills Research & Consultancy

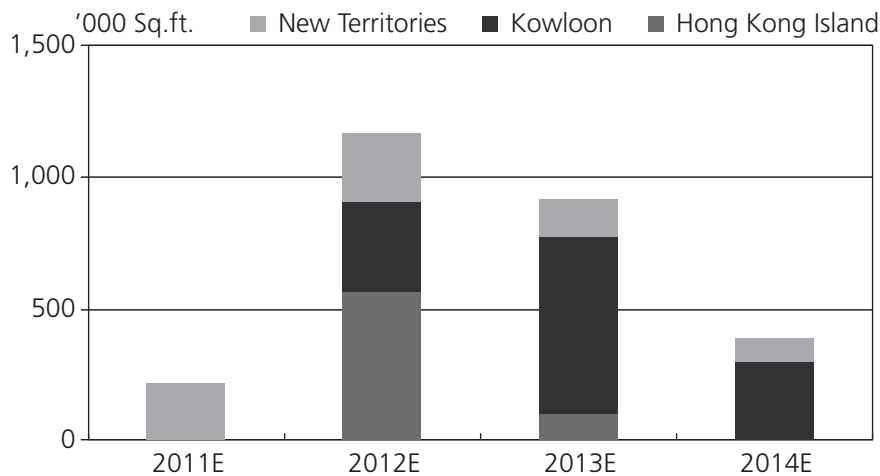
<sup>9</sup> Defined by the Rating and Valuation Department, private commercial premises include retail premises and other premises designed or adopted for commercial use, with the exception of purpose-built offices. Car park space is excluded.

<sup>10</sup> According to the Rating and Valuation Department, from 2006 onwards, private commercial stock figures include properties owned by The Link REIT, which had a total internal floor area (IFA) of 10.3 million sq ft in 2006.

The majority of new retail supply currently scheduled for completion is being built in Kowloon and many of the new shopping centres forecast for completion by 2013 are small in scale with a GFA<sup>11</sup> of less than 200,000 sq ft. Supply of major shopping centres in Hong Kong is expected to fall to an average of 672,000 sq ft per annum between 2011 and 2014, with the highest proportion of new centres located in Kowloon, representing 48%.

There will be two major retail developments completed in Kowloon in 2013 including the extension of Ocean Terminal in Tsim Sha Tsui and Kowloon Development's Ngau Chi Wan project. There is one major new development, Hysan Place in Causeway Bay, which is expected to be completed in 2012. In terms of major new supply in the New Territories, a total of 626,000 sq ft of retail GFA from three developments in Tseung Kwan O (Area 56, 215,000 sq ft), Tuen Mun (Tuen Mun Station, 269,000 sq ft) and Ma On Shan (Lok Wo Sha project, 142,000 sq ft) are scheduled to come on stream over 2011 to 2013.

**Major shopping centre<sup>12</sup> supply, 2011E-2014E**



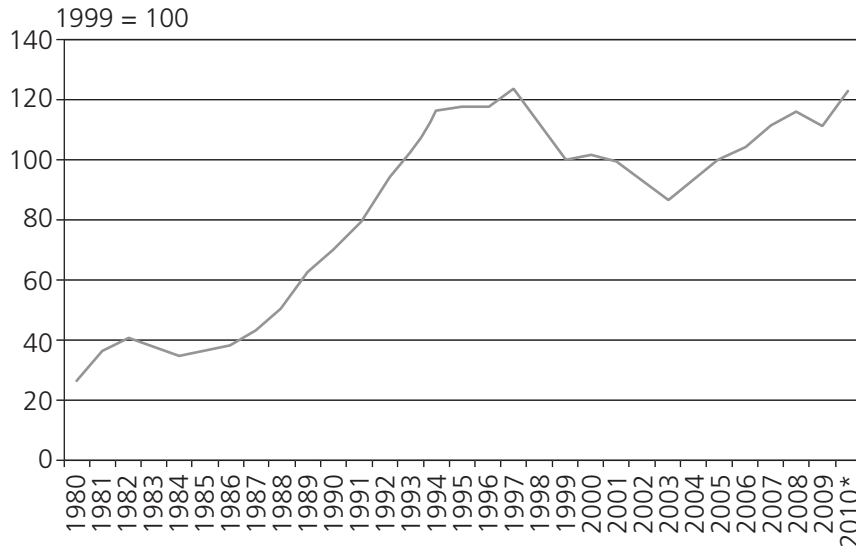
<sup>11</sup> GFA is the area contained within the external walls of the building measured at each floor level, including any floor below the level of the ground, and excluding any floor space which the Building Authority is satisfied was constructed or intended to be used solely for parking motor vehicles, the loading or unloading of motor vehicles or occupied solely by machinery or equipment for any lift, air-conditioning or heating systems or any similar service.

<sup>12</sup> Over 50,000 sq ft

### 1.3.3 Retail rents and prices

#### Rental trends

Private retail rental index, 1980-2010



Source: Rating and Valuation Department, Savills Research & Consultancy

\* Provisional Figures

The strong rebound in the local economy, as well as the implementation of the Individual Visit Scheme (IVS), induced a strong recovery in the retail market, and private retail rents increased by around 42% from 2003 to 2010. Average prime shopping centre rents in Hong Kong stood at HK\$216 per sq ft gross at the end of 2010<sup>13</sup>, surpassing their 1997 peak.

#### Private retail rental index growth rate (month-on-month), Jan 2011-Oct 2011

Jan 2011	.....	-1.2%
Feb 2011	.....	+0.9%
Mar 2011	.....	+0.9%
Apr 2011	.....	+0.9%
May 2011*	.....	+2.5%
Jun 2011*	.....	+1.4%
Jul 2011*	.....	-0.6%
Aug 2011*	.....	+1.1%
Sep 2011*	.....	+1.2%
Oct 2011*	.....	-1.5%

\* Provisional Figures

The robust tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rents in 2011. Year-to-date, retail rents have grown by 7.1% over the first ten months of 2011.

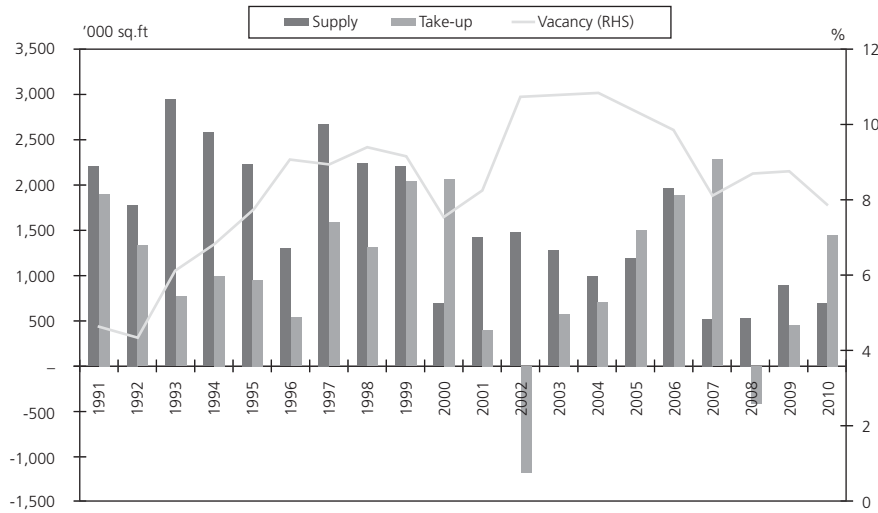
<sup>13</sup> Source: Savills Research & Consultancy

*Take-up and vacancy*

Average take-up between 1980 and 1989, between 1990 and 1999, and between 2000 and 2010 stood at approximately 2.3 million sq ft, 1.4 million sq ft and 0.9 million sq ft respectively. Besides the maturing nature of the market, the falling take-up is also attributable to falling supply levels. Take-up rebounded from 0.8 million sq ft in 2004 to 2.3 million sq ft in 2007.

The negative take-up of retail space in 2008 is the result of demand contraction on the back of the global financial crisis, when a number of chain retailers closed in Hong Kong, examples being Tai Lam and U-Right, which both closed towards the end of that year. Vacancy rates increased to 8.7% in 2008 as a result. Take-up of retail space rebounded strongly to 1.5 million sq ft in 2010 with the vacancy rate dropping to 7.9%

**Private commercial supply, take-up and vacancy rate, 1991-2010**

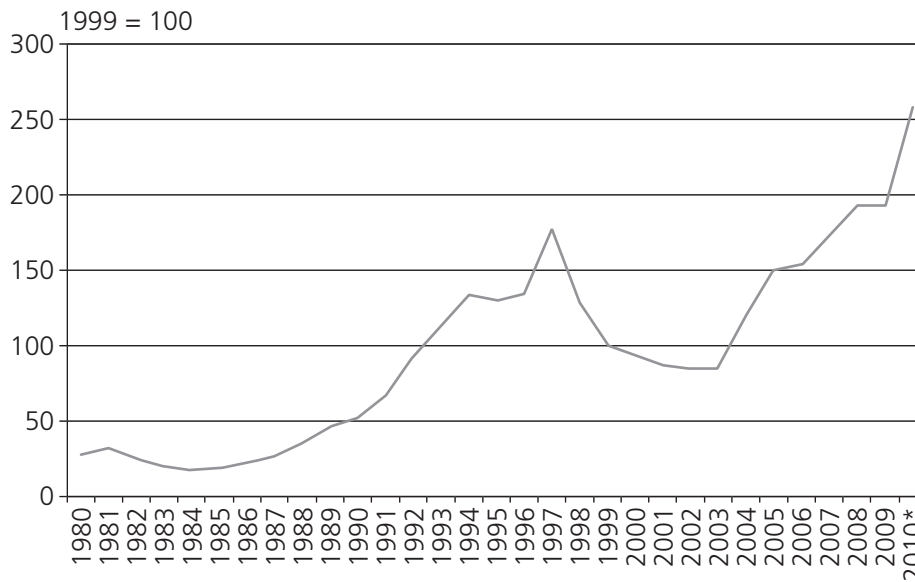


Source: Rating and Valuation Department, Savills Research & Consultancy

\* Provisional Figures

Price trends

Private retail price index, 1980-2010



Source: Rating and Valuation Department, Savills Research & Consultancy

\* Provisional Figures

Prices of private retail space in Hong Kong have generally followed the same trend as rents. Prices grew along with rising rents from 1984, but have been rising more swiftly since the early 1990s, fuelled by negative real interest rates. An increase of 650% was recorded over the 1984 to 1994 period, representing average annual growth of 21%. A marginal decline in prices was recorded in 1995 but values rose again in 1996 and 1997. Asset deflation took hold after the financial crisis and prices dropped by 52% in 2002. After rising by more than 201% from the trough in 2003 to 2010, yield compression became a stumbling block for most investors looking for investment properties.

Private retail prices index growth rate (month-on-month), Jan 2011-Oct 2011

Jan 2011	.....	+2.6%
Feb 2011	.....	+3.4%
Mar 2011	.....	+2.6%
Apr 2011	.....	+2.8%
May 2011*	.....	+0.5%
Jun 2011*	.....	+1.3%
Jul 2011*	.....	+0.4%
Aug 2011*	.....	+1.0%
Sep 2011*	.....	+1.3%
Oct 2011*	.....	+0.6%

\* Provisional Figures



The retail investment market has been very active in 2011. Prices of private retail premises in Hong Kong have recorded a growth of 14.7% over the first ten months of 2011.

*Shopping centre transactions*

**Major shopping centre transactions, 2006-2011**

Transaction date	District	Property	Unit	Consideration (HK\$)	Gross area (sq ft)	Gross unit price (HK\$ per sq ft)	Vendor	Purchaser
Jan-06	Kowloon Tong	Festival Walk	50% share	6,180,000,000	1,210,000 (all)	10,215	CITIC Pacific	Swire Properties
Jan-07	Mong Kok	Mong Kok Computer Centre, 8-8A Nelson Street	1/F and others	750,000,000	26,000	28,846	Standard Investment	Preciousbud Ltd
Feb-07	Mong Kok	Golden Plaza, 745-747 Nathan Road	B/F-G/F and others	515,000,000	N/A	N/A	Perfect Manor Ltd	Bliss Investments Ltd
May-07	Tai Po	La Fontaine, 6 Chui Lok Street	Comm'l podium incl common area and service facilities	120,200,000	29,804	4,033	Great Rich Holdings Ltd	Fu Lam Finance Co Ltd
Jun-07	Tsuen Wan	Allway Gardens Shopping Centre and car parks	Ph 1 G/F and 2/F, Ph 2 G/F and M/F, Ph 3 6/F and car parks	221,800,000	223,000	995	Goldhill Investments Ltd	Max Rainbow Enterprise Ltd
Sep-08	Tung Chung	Seaview Crescent	Kindergarten and retail shop	100,000,000	38,000	2,632	Newfoundworld Site 3 (Retail) Ltd	Grand Idea Enterprises Ltd
Apr-09	Tin Shui Wai	Grandeur Terrace	G/F-1/F	303,000,000	46,716	6,486	Rich Score Development Ltd	New Golden Investments Ltd
Jul-09	Sham Shui Po	Golden Centre, 94 Yen Chow Street, 146-152 Fook Wa Street	G/F-1/F	287,000,000	28,800	9,965	China Wealthy Enterprises	Mega View Investments Ltd
Oct-09	North Point	Fitfort, Healthy Gardens, 560 King's Road	Retail podium	935,000,000	124,149	7,531	Wheelock Properties	Emperor Group
Nov-09	North Point	Fortress Tower, 250 King's Road	G/F-1/F	355,000,000	38,349	9,257	Golden Place Investments Ltd	Kam Wah Property Investment Ltd
Jan-10	Sham Shui Po	Beacon Lodge, 338 Shun Ning Road	Commercial podium	120,000,000	22,429	5,350	Urban Renewal Authority (URA)	The Directors of the Young Men's Christian Association
Aug-10	Mong Kok	MK1, Bell House, 525-543A Nathan Road	G/F-2/F	696,000,000	36,500	19,068	Tang Shing Bor	Sunlink Holdings (HK) Ltd
Nov-10	Tai Kok Tsui	Florient Rise, 38 Cherry Street	Commercial accommodation	350,000,000	61,347	5,705	URA & Nan Fung	Victory Wave Ltd
Jun-11	Tseung Kwan O	Nan Fung Plaza	Commercial podium	1,170,000,000	176,000	6,648	Nan Fung	The Link REIT
Jul-11	Kowloon Tong	Festival Walk	Whole block	18,800,000,000	1,210,000	15,537	Swire Properties	Mapletree

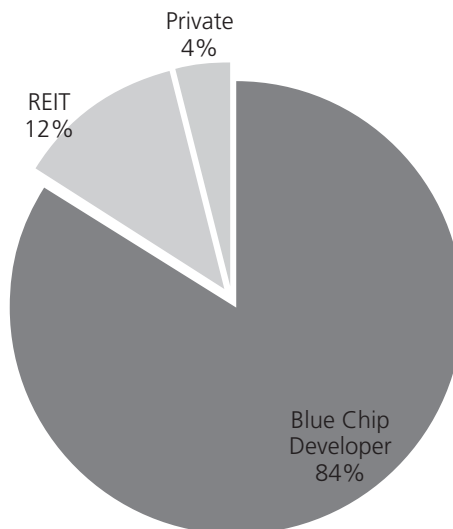
Source: EPRC, Company announcements, Savills Research & Consultancy

Shopping centre<sup>14</sup> transactions in Hong Kong have been limited over the past five years as many shopping centres in prime locations, regardless of whether they are core or non-core retail areas, are tightly held by their developers and only a handful are generally available for sale.

The largest transaction recorded in terms of consideration from 2006 to 2011 was Festival Walk in Kowloon Tong, in a deal between Swire Properties and Mapletree, in which Mapletree acquired the entire property (shopping centre and offices) for a consideration of HK\$18.8 billion, or HK\$15,537 per sq ft of gross area, on 29 July 2011. Another major retail acquisition by The Link REIT was the acquisition of the commercial podium of Nan Fung Plaza for HK\$1.17 billion on 8 June 2011.

According to the above transaction table which is sourced from company announcements and EPRC, from 2006 to 2011 only three shopping centres of around or over 180,000 sq ft have been transacted (Festival Walk only counted once).

#### Shopping centres with a GFA over 180,000 sq ft, breakdown by floor area<sup>15</sup>



Source: Company reports, Savills Research & Consultancy

According to various company reports and Savills estimates, 96% of shopping centres over 180,000 sq ft are held by developers and REITs respectively, and are not frequently transacted.

#### 1.3.4 Non-core retail market

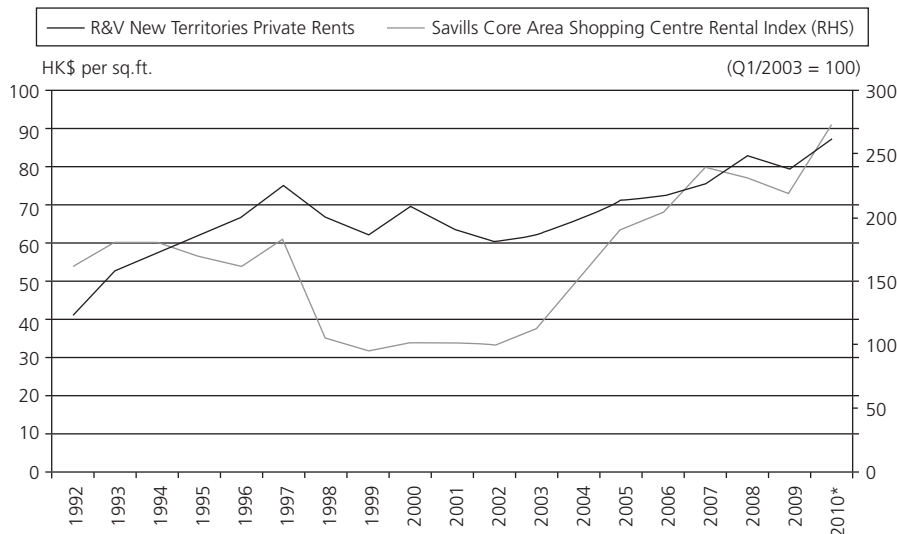
Retail nodes in Hong Kong can be subdivided into core and non-core retail areas. The four core retail areas in Hong Kong are Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, while all other areas are regarded as non-core retail areas. Major characteristics of non-core retail centres are that they often come in the form of large retail podiums in new residential developments, with a strong and often captive primary catchment, offering mainly daily necessities and basic comparison goods with a

<sup>14</sup> Excluding multi-floor retail units which are often occupied by one or a few retailers with no branding of a shopping centre and no specific trade/tenant mix.

<sup>15</sup> While properties held by REITs are clearly shown in their respective annual reports, Savills has only loosely categorised properties held by 'Developers' and 'Private' and thus the percentage shown in this chart can only be regarded as rough estimates.

strong F&B presence. The ratio of non-core retail completions to total retail completions increased from 31% for the period 1981 to 2000 to 62% for the period 2001 to 2010, revealing that nearly two-third of the centres completed over the past decade have been non-core centres.

#### Private retail rents in the New Territories vs core area shopping centre rental index, 1992-2010



Source: Rating and Valuation Department, Savills Research and Consultancy

\* Provisional Figures

There are no officially available rental trackers or indices for the overall non-core retail market. We have adopted New Territories private retail rents from the Rating and Valuation Department as a proxy for their performances. Non-core retail market rents have proved to be relatively more stable than core area shopping centre rental movements, especially during market downturns. Taking the Asian financial crisis period (from 1997 to 1999) as an example, while non-core retail market rents fell by 17.0% over the period, while much heavier falls of 47.8% were recorded for core area shopping centre rents over the same period<sup>16</sup>. During the most recent downturn from 2008 to 2009, non-core retail market rents declined by 4.1%, again more moderate than the 5.6% drop of core shopping centre rents.

Besides a more resilient rental performance during market downturns, non-core shopping centres are also proving increasingly popular among international retailers. In light of the fierce competition among international brands for prime spaces in core areas or traditional shopping districts, namely Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, some international brands are expanding into non-core locations along the railway lines, especially those seeing increasing mainland footfall. For instance, H&M and Uniqlo both opened new stores in New Town Plaza in Sha Tin and Olympian City in Tai Kok Tsui.

#### 1.4 Retail market outlook

The strong retail sector performance is no longer confined to core retail areas but has spread to non-core retail areas and is well supported by both local consumption and visitor spending, which both look set to remain strong over the near future. The recent global

<sup>16</sup> Core area shopping centre rental movements according to the Savills core area shopping centre rental index

economic uncertainties, as well as further tightening measures in China have not had any adverse effect on the local retail scene just yet, but any abrupt changes in these two areas should be closely monitored.

Statistically, total retail sales (retail sales + restaurant receipts) growth is highly related to growth of visitor arrivals (positive), the rate of unemployment (negative), as well as growth in real GDP (positive) over the past two decades ( $R^2 = 75\%$ ). Extrapolating this historic relationship<sup>17</sup>, the total retail sales value is expected to increase by 20% in 2011 before moderating to a 7.3% growth per annum from 2012 to 2015.

Retail rental growth has also shown a relatively high positive correlation with the growth of total retail sales productivity<sup>18</sup> over the past two decades ( $R^2 = 63\%$ ), indicating that retail rents were affected by both the money generated from, and the provision of, retail space over the period. Retail rents are expected to increase by 17.1% in 2011, before reverting to more moderate growth of 7.6% per annum from 2012 to 2015.

The non-core retail rental trend has a relatively high correlation with the overall market over the past two decades ( $R^2 = 64\%$ ) and extrapolating their relationship, we may see a 14.0% increase in rents in 2011 and a 7.4% per annum rental growth from 2012 to 2015.

#### Summary of private retail rental forecast, 2011E-2015E

Year	Overall rental growth	Non-core retail rental growth
2011 .....	+17.1%	+14.0%
2012 .....	+7.6%	+7.4%
2013 .....	+7.9%	+7.6%
2014 .....	+7.7%	+7.5%
2015 .....	+7.1%	+7.1%

Source: Savills Research & Consultancy

## 2.0 CATCHMENT AND INDIVIDUAL ASSET ANALYSIS

The subject portfolio comprises two non-core retail centres, namely Belvedere Garden in Tsuen Wan and Provident Centre in North Point. Both of them are retail centres attached to a residential development.

These shopping malls benefit from convenient transport infrastructure, with easy access to various modes of transport, and are thus well connected to the urban areas and other parts of Hong Kong.

The two shopping malls are underpinned by stable demand from local catchments and are relatively well insulated from the rental volatility seen in prime centres.

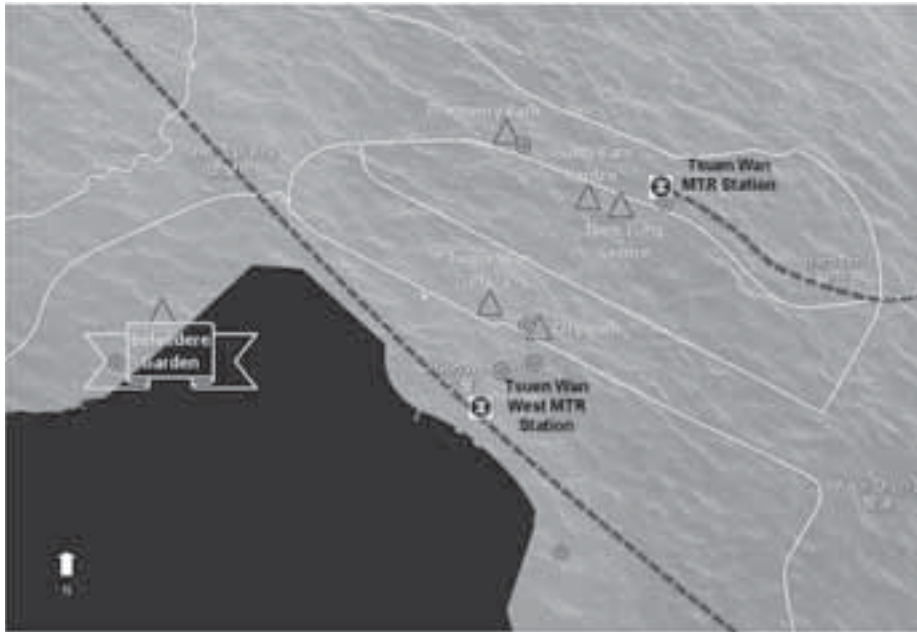
<sup>17</sup> Visitor arrivals are forecast to grow by 16.2% in 2011 (growth rate of Jan-Aug 2011) before growing by a more moderate 11.4% per annum from 2012 to 2015, being the average growth rate from 2001 to 2010. GDP growth and unemployment rate forecasts follow those listed in section 1.2.2.

<sup>18</sup> Total retail sales divided by total retail floor area

## 2.1 Belvedere Garden Shopping Centre

### 2.1.1 Location

Location map



**Legend**     Shopping centre     Public transport interchange     MTR line

The Belvedere Garden Shopping Centre is the shopping arcade in the Belvedere Garden residential development in Tsuen Wan. Belvedere Garden is located northwest of Tsuen Wan West MTR Station and west of Tsuen Wan MTR Station.

The shopping centre is composed of three different sections across phases 1, 2 and 3 of Belvedere Garden, which itself comprises 19 residential blocks with a total of 6,016 residential flats, completed between 1987 and 1991.

The total gross rentable area (GRA) of Belvedere Garden Shopping Centre is approximately 276,862 sq ft, providing a wide selection of restaurants, fashion and beauty shops, and educational services. Anchor tenants include PARKnSHOP, Café de Coral and Pizza Hut.

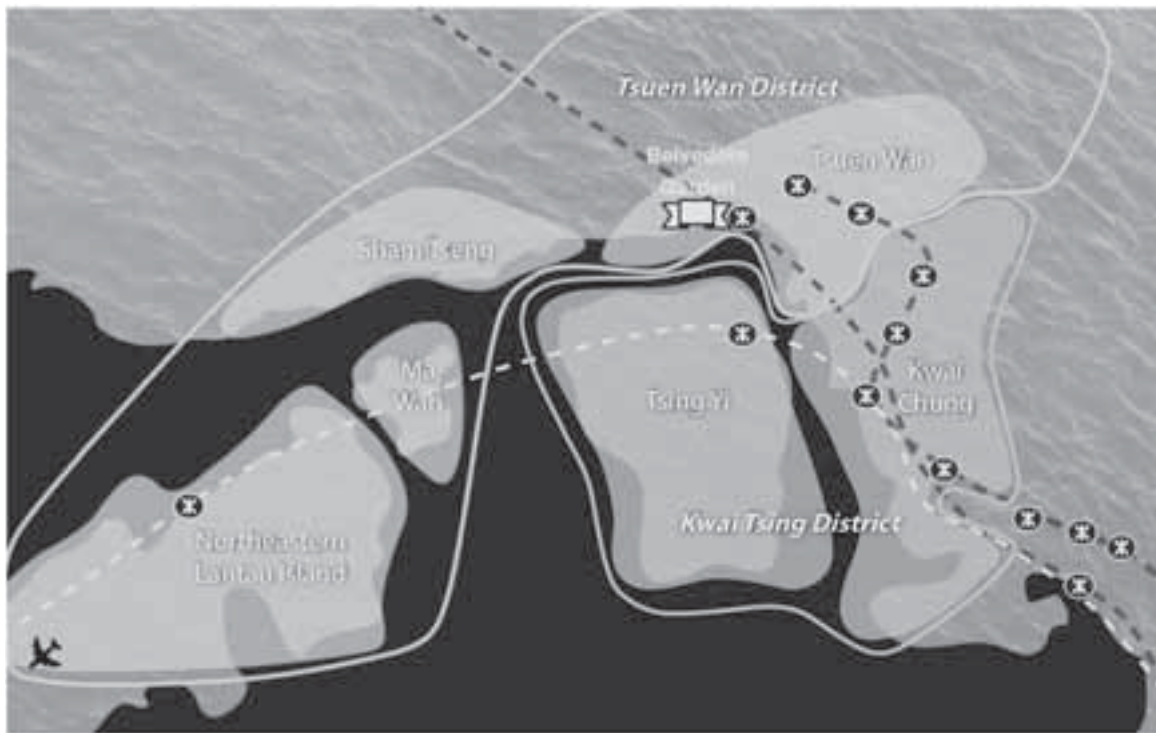
Most of the adjacent developments are private residential developments, including Bayview Garden (1,200 units), Greenview Court (768 units), Serenade Cove (792 units) and The Panorama (344 units), all located within a five-minute walk of Belvedere Garden Shopping Arcade. There are two primary schools situated just next to Belvedere Garden.

The subject shopping arcade is located within a five-minute drive of Tsuen Wan town centre.

## 2.1.2 District analysis

### *District overview*

#### Tsuen Wan district overview



Source: Savills Research & Consultancy

Tsuen Wan is located in the southwest New Territories and it is one of the first three new towns developed in Hong Kong.

Tsuen Wan is currently undergoing a redevelopment and transition phase, moving away from the manufacturing and industrial sectors, towards residential, retail, hospitality and service-based industries, with many industrial buildings being redeveloped into new private residential and commercial properties, such as Chelsea Court, H Cube and Indi Home. Key redevelopment projects include the Urban Renewal Authority's Tsuen Wan Town Centre Redevelopment Project, a residential-cum-retail development, and the Nina Tower Development, a mixed-use complex comprising commercial, hotel and convention centre areas.

Because of its strategic location on the airport corridor, many hotels have been completed in Tsuen Wan to accommodate tourists, including Panda Hotel (1,026 rooms), Royal View Hotel (411 rooms), Silka Far East Hotel (240 rooms), and L'hotel Nina at the Convention Centre (around 1,608 rooms).

Ting Kau, Sham Tseng and Tsing Lung Tau are the three coastal sub-districts in the west of Tsuen Wan, where a number of villages can be found. Residential units in these areas are a combination of villa-style, low-rise developments and mid- to

high-rise private apartments, and major residential developments in these sub-districts include Rhine Garden (1,066 units), Bellagio (3,345 units), Sea Crest Villa (2,409 units), Ocean Pointe (560 units) and Hong Kong Garden (2,830 units).

Ma Wan, an island situated between Lantau Island and Tsing Yi Island, is another sub-district of Tsuen Wan.

Tsuen Wan is one of the major transportation hubs in the western New Territories, as well as a gateway to Hong Kong International Airport on Lantau Island. The comprehensive road network connects the district to various locations, and major trunk roads include Castle Peak Road, Sha Tsui Road and Tsuen Wan Road, while the district is well connected to the airport via the Tsing Ma Bridge and to the northwest New Territories via the Ting Kau Bridge.

Tsuen Wan is served by the MTR with three railways lines — the Tsuen Wan Line, the West Rail Line and the Airport Express Line. Construction of Route 8 between Tsing Yi and Cheung Sha Wan was completed and opened to traffic in December 2009.

#### *Future development*

Future property development in Tsuen Wan will mainly take place in western Tsuen Wan, along the coastal strip near Tsuen Wan West MTR Station which is neither close to the subject property nor the primary catchment area.

The largest private residential development in the area is the potential project above Tsuen Wan West MTR Station. The entire development will comprise three different phases, Tsuen Wan West TW5, Tsuen Wan West TW6 and Tsuen Wan West TW7. Tsuen Wan West TW7, which will provide 1,776 residential flats, was tendered to Cheung Kong Holdings in September 2008. Altogether, a total of 5,778 residential flats will be provided by the three phases of development.

According to information from the MTR Corp, the Tsuen Wan West TW5 development will also have an hotel and a retail space of 220,340 sq ft and 700,000 sq ft respectively. The proposed retail provision of TW5 will be the only upcoming retail project larger than that of Tsuen Wan Plaza (583,600 sq ft) and Discovery Park (466,400 sq ft) and will be the largest shopping mall in Tsuen Wan.

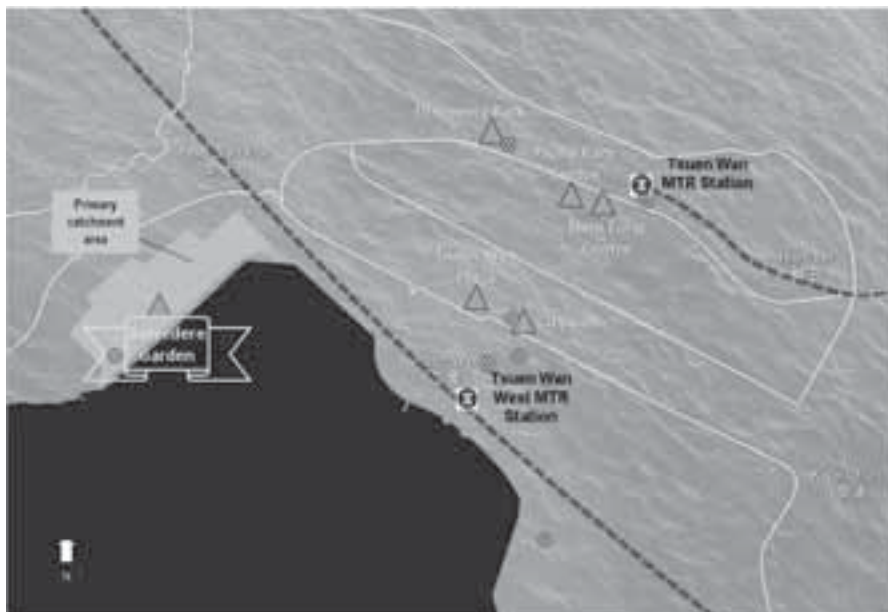
## Major developments in Tsuen Wan

Development/infrastructure	Development information					Expected completion
	Residential	Retail	Hotel	Office	Industrial	
106-114 Kwok Shui Road . . . .	410 units					2013
13-17 Fu Uk Road . . . . .	105 units					2014
372-380 Castle Peak Road, Casam Beach, Ting Kau . . . .	46 units					2014
TLTL 67, Tsing Lung Tau . . . .	4 units					2014
TW7, Tsuen Wan West MTR Station . . . . .	1,776 units					2014
TW5, Tsuen Wan West MTR Station . . . . .	3,326 units	700,000 sq ft	220,340 sq ft			Planning
TW6, Tsuen Wan West MTR Station . . . . .	752 units					Planning
2-6 Sha Tsui Road . . . . .			328,450 sq ft			Planning
Chuen Lung Street TWTL 389 .			80 rooms			2013
Hoi Shing Road, TWIL 36 . . . .					443,300 sq ft	2013
Seaview Project, 6-28 Chai Wan Kok Street . . . . .					650,000 sq ft	2014
<b>Transport infrastructure</b>						
Reconstruction and improvement of Tuen Mun Road — eastern section . . . .						2014
Extension of footbridge network in Tsuen Wan — footbridge A along Tai Ho Road . . . . .						2012

Source: Hong Kong Tourism Board, Buildings Department



2.1.3 Catchment area analysis



Source: Savills Research & Consultancy

**Legend**    ▲ Shopping centre    ⊙ Public transport interchange    — — — MTR line

*Basic demographics*

Belvedere Garden Shopping Centre already has a very strong captive primary catchment area, serving the residents in Belvedere Garden and the surrounding residential neighbourhood. The catchment analysis of Belvedere Garden Shopping Centre is concentrated on the primary catchment area, which can be defined as the area covering Belvedere Garden, Bayview Garden, Greenview Court and Serenade Cove, all of which are within a ten-minute walk. Residents from these developments are expected to patronise Belvedere Garden Shopping Centre at least weekly.

**Basic demographics of the Belvedere Garden Shopping Centre catchment area, 2006**

	Primary	The whole territory
LSBG no. ....	323/31-35, 44	
Population .....	30,623	6,864,346
Median age .....	35-40 (average 38.0)	39
Number of households .....	8,775	2,226,546
Average household size .....	3.49	3.0
Median monthly household income (HK\$) .....	31,822	17,250
Ratio between mortgage/loan repayment and median household income (%) .....	23.2-26.6 (average 24.8)	26.6
Ratio between rent and median household income (%) ...	15.5-35.6 (average 25.2)	16.0

Source: Census and Statistics Department, Savills Research & Consultancy

The total population of the primary catchment area stood at 30,623 persons, representing 8,775 households in 2006. The median monthly income of the primary catchment area stood at HK\$31,822, much higher than the territory wide average, reflecting the middle-class status of the majority of residents.

The total disposable income pool is derived by deducting total mortgage/loan repayments and total rental payments of all households from the total monthly income of all households within a given catchment area. This income pool can be regarded as the maximum potential spending of all households within any given catchment area.

The total disposable income pool of the primary catchment area was estimated at HK\$235 million in 2006. Divided by the number of households in the primary catchment area, the per capita (household) disposable income of the primary catchment area was HK\$26,800, much higher than the New Territories' average of HK\$14,700 in 2006.

Assuming that the total disposable income of the original primary catchment area increased by 13.6%<sup>19</sup> from 2006 to 2011, the total disposable income pool of the primary catchment area could reach HK\$267.4 million.

#### Projected demographics of Belvedere Garden Shopping Centre, 2011

	Primary catchment	The whole territory
Population . . . . .	30,623	7,108,100
Number of households . . . . .	8,775	2,352,900
Total disposable income pool (HK\$ million) . . . . .	267.4	39,853
Per capita (household) monthly disposable income (HK\$) . . . . .	30,476	16,938

Source: Census and Statistics Department, EPRC, Savills Research & Consultancy

#### 2.1.4 Competition analysis

There is no major competition in the Belvedere Garden primary catchment area because there is no retail development of a similar scale within the area. This is in the nature of a neighbourhood mall whose primary focus is on the provision of daily necessities and convenience goods and services. However, Belvedere Garden faces some competition from retail developments in Tsuen Wan town centre for comparison shopping and leisure activities. Since the town centre is the main interchange for residents commuting by MTR and living in the primary catchment area, some residents will tend to shop there after school or work before returning home.

Retail in Tsuen Wan is mixed, and includes both shopping malls and street shops. The entire area is well served by public transport, resulting in relatively high shopper mobility within the entire Tsuen Wan area. Shopping malls make up the most significant part of Tsuen Wan's retail market and many of them are part of integrated developments, either residential or commercial, including CityWalk 1 and 2, Discovery Park Shopping Centre, Luk Yeung Galleria, City Landmark I and II, and Nina Tower. A total of approximately 2.75 million sq ft of retail GFA is available in major shopping malls<sup>20</sup> in Tsuen Wan with a diversified ownership pattern. Most of the shopping malls in Tsuen Wan have a strong focus on department store and F&B provision, and each

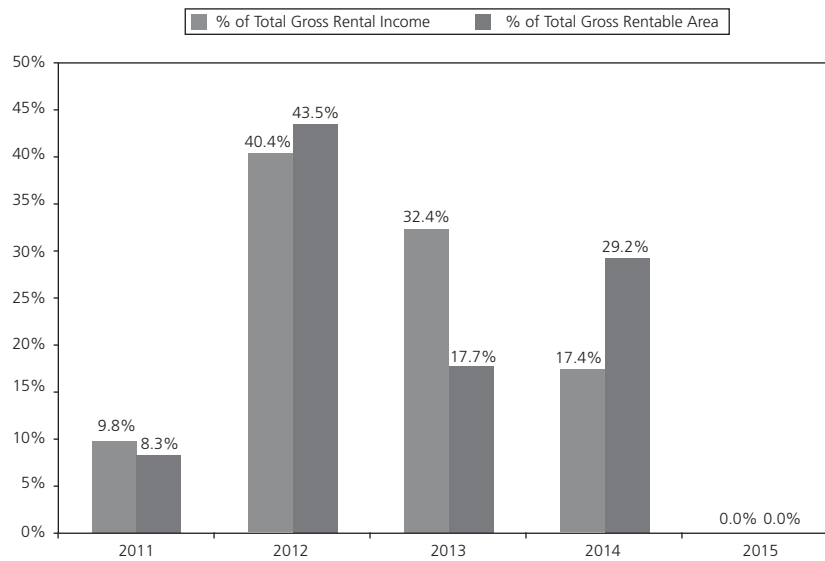
<sup>19</sup> Based on the growth rate of median household income from 2006 to 2011, Census and Statistics Department

<sup>20</sup> Accounts for retail developments under single ownership (or joint venture ownership) with a GFA over 100,000 sq ft only.

mall has its own strength in terms of positioning and major anchors. There are three wet markets in Tsuen Wan, namely Tsuen Wan Market, Yeung Uk Road Market and Heung Che Street Market, which can be regarded as offering some competition to the wet market in Belvedere Garden. Street shops are concentrated in the centre of Tsuen Wan, along Chung On Street and Sha Tsui Road, and are generally dominated by jewellery and goldsmith shops, which is not regarded as direct competition to Belvedere Garden.

### 2.1.5 Belvedere Garden Shopping Centre analysis

#### Lease expiry profile of Belvedere Garden Shopping Centre, 2011-2015<sup>21</sup>

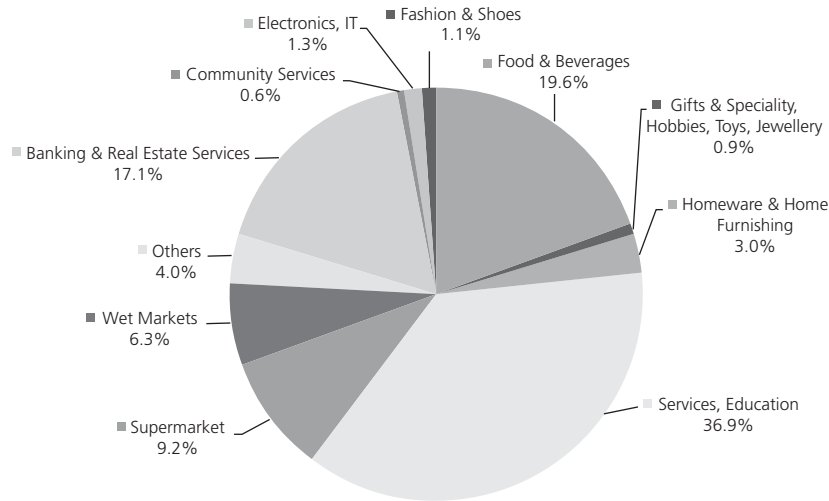


Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

Lease expiries are concentrated in 2012 and 2013, both in terms of rental income and floor area occupied. The lease of two anchor tenants, namely ParknSHOP and New Star Seafood Restaurant, will expire in 2012. Other lease expiries in those two years are mainly coming from educational services tenants. The demand for educational services in the catchment area is strong given a reasonable size of children and student population in the primary catchment.

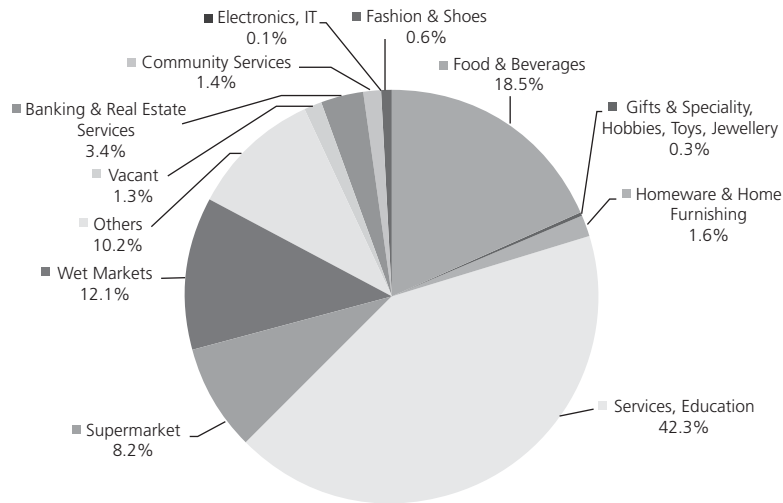
<sup>21</sup> As of 30 September 2011

**Trade mix by gross rental income of Belvedere Garden Shopping Centre, Sep 2011**



Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

**Trade mix by GRA of Belvedere Garden Shopping Centre, Sep 2011**



Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

Tenants providing educational services occupy the space as service centres, representing 37% of income and 42% of GRA in September 2011, followed by F&B tenants who occupy around 20% and 18.5% of the space in Belvedere Garden Shopping Centre by income and GRA respectively.

**2.1.6 Outlook**

Belvedere Garden is currently enjoying a captive primary catchment with a large residential population of around 30,000 persons and its current trade and tenant mix with a heavy bias towards necessity shopping (over 90% in terms of both rental income and GRA) is well supported as a result. However, the working population catchment

which supports the weekday daytime patronage is minimal, while the centre may face some competition from Tsuen Wan town centre for comparison shopping and leisure activities.

With its strong and captive primary catchment demand relatively stable and with no competition within the immediate vicinity we expect the rental growth of Belvedere Garden to follow the broader non-core market trend. The lease expiries of large occupiers in 2012 and 2014 are expected to be renewed at market levels with minimal impact on overall rental levels.

There is potential for Belvedere Garden to further strengthen its grip on the relatively rich primary catchment area if it can upgrade the physical facilities of the property as well as introduce some better quality popular F&B chains. In addition, there is also potential for the subject property to attract residents beyond its primary catchment area, including the area to the west of Belvedere Garden along Castle Peak Road (including Ting Kau, Sham Tseng and Tsing Lung Tau), if it can transform some sections of the property into a hub for educational services or related trades, with one or two anchor-branded tenants. This may have a positive impact on the image and positioning of the property, as well as achieving some rental enhancement in the long-run.

#### Rental forecast for Belvedere Garden Shopping Centre, 2011E-2015E

	Non-core Market	Belvedere Garden Shopping Centre	Events related to Belvedere Garden Shopping Centre
2011 .....	+14%	+14%	—
2012 .....	+7%	+7%	—
2013 .....	+8%	+8%	—
2014 .....	+7%	+7%	—
2015 .....	+7%	+7%	—

Source: Savills Research & Consultancy

## 2.2 Provident Centre

### 2.2.1 Location

Location map



Source: Savills Research & Consultancy

**Legend**     Shopping centre     Transportation terminus     MTR line

Provident Centre (Provident Centre Home World) is the three-floor retail podium in a residential development of the same name, located at 21-53 Wharf Road, North Point. The whole estate is composed of 17 tower blocks, a total of 1,450 flats, with apartment sizes ranging from 800 sq ft to 1,540 sq ft, and 18 penthouse flats on the top floors of each block.

The three levels of the shopping arcade have a gross rentable area (GRA) of around 180,238 sq ft, and a wide selection of stores selling household products, fashion and electrical appliances, plus restaurants, a JUSCO \$10 Plaza, a Jumpin' Gym USA and a PARKnSHOP supermarket.

The entrance of the subject shopping centre is on the G/F, opening onto Wharf Road. The complex is to the northwest of North Point MTR Station and is within a five-minute walk of the station.

Surrounding Provident Centre are mainly private residential developments, many of them old standalone residential buildings with street shops located on the G/F. A 2,393-unit private residential development, City Garden, with two shopping centres

(namely Maxi Mall and City Garden Shopping Arcade) completed between 1983 (Phase 1) and 1986 (Phase 2) is situated on the waterfront next to Provident Centre. Another small-scale shopping mall, Olympia Plaza, is situated next to City Garden. Fortress Tower Shopping Arcade is located close to Fortress Hill MTR Station and the retail portion of Metropole Building is located next to North Point MTR Station along King's Road, both of which have large-scale residential developments above and are located further away from Provident Centre.

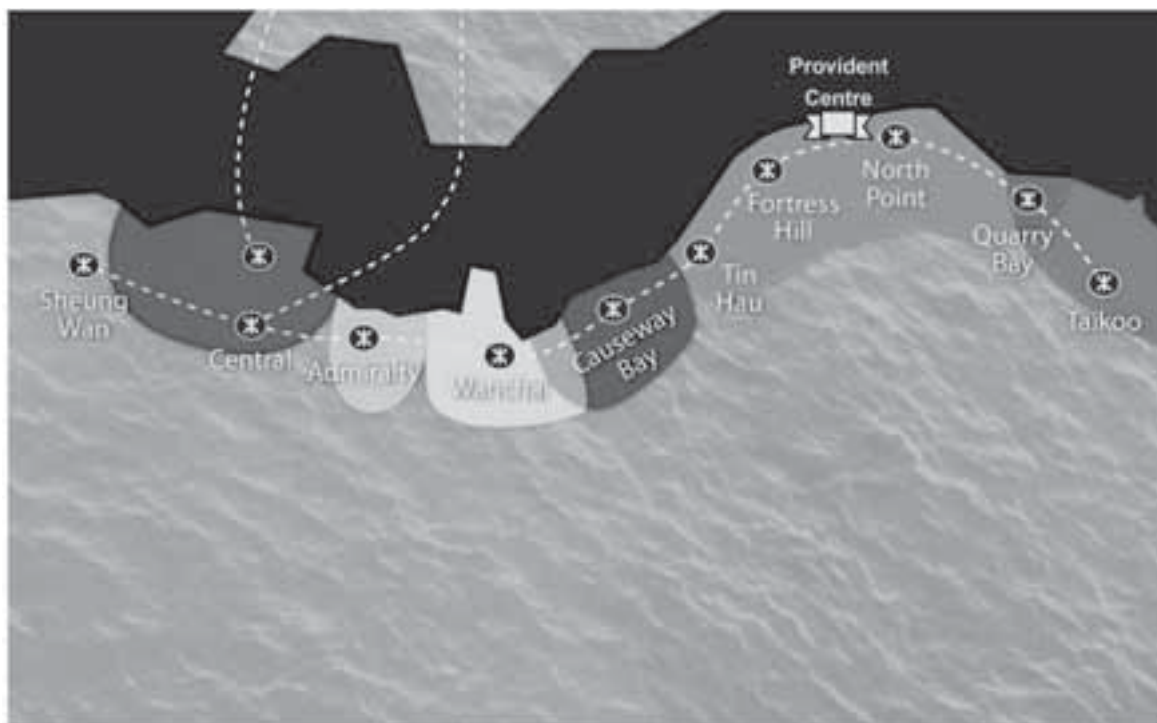
The 202-room South China Hotel is located within a five-minute walk from Provident Centre, while City Garden Hotel (613 rooms) and Newton Inn (317 rooms) are both located ten minutes from Provident Centre.

A local wet market with a high footfall is on Chun Yeung Street and modern furniture shops are located along Java Road.

### 2.2.2 District analysis

#### *District overview*

#### **North Point district overview**



Source: Savills Research & Consultancy

North Point is a mature residential cluster on Hong Kong Island, with many private residential estates, including City Garden (2,393 units), Fortress Garden (1,263 units), Fortress Metro Tower (757 units), Healthy Gardens (1,104 units), Full Wealth Garden (866 units) and Bedford Gardens (1,421 units).

Alongside the private residential buildings are office developments housing numerous local enterprises, multinational companies and government departments, including Citicorp Centre, AIA Tower and 169 Electric Road located on the waterfront,



and 625 King's Road, 633 King's Road, Kerry Centre and Prosperity Millennium Plaza along King's Road. The HKSAR Customs and Excise headquarters building and ICAC's North Point headquarters are both located on Java Road.

North Point is easily accessible from other areas on Hong Kong Island via the MTR, which has entrances along King's Road to North Point, Fortress Hill and Quarry Bay stations. In addition, trams, buses and minibuses are available on King's Road and Java Road providing numerous road transport routes to the area.

#### *Future development*

One residential development is scheduled for completion in the immediate vicinity of Provident Centre. The Java (75 units), located at 96-106 Java Road, has been developed by Emperor Group and was put onto the market in 2010 for pre-sale. It is expected to be ready for occupation by 2012. Small developments at 62-68 Chun Yeung Street (around 81 units), and 22 Java Road and 1-5 Yuet Yuen Street (31,050 sq ft) are expected to be completed in 2014 and 2015 respectively.

Within the broader North Point area, a few large-scale developments are in the pipeline. A 648-unit residential project at 5 Kai Yuen Street is expected to enter the market in 2014, while a project at 14-30 King Wah Road, comprising 336 units, will be completed in the same year. The Hong Kong Housing Society has a project at 2-4 Tanner Road with 510 units and 131,096 sq ft of non-domestic space scheduled for completion in 2014.

A notable project in North Point is the redevelopment of the former government supplies depot on Oil Street (IL8920), a mixed-use hotel, commercial and residential property. This site was tendered for sale by the government in August 2011 and Cheung Kong will be the developer. The final details of the project will be released once building plans are approved by the Buildings Department.

The ex-North Point Estate redevelopment is another prominent project in the area. The western part of the ex-North Point Estate (IL9020), which is approximately 0.54 ha, is on the Government Land Sale application list and will possibly be zoned for use as a hotel. According to the Lands Department, the maximum permissible area on this site is around 387,500 sq ft. The eastern part of the ex-North Point Estate (IL9027), which is 2.93 ha, will be available on the Government Lands Sale application list in March 2012 for residential and commercial development.



## Major developments in North Point

Development/infrastructure	Development information					Expected completion
	Residential	Retail	Hotel	Office	Industrial	
96-106 Java Road . . . . .	75 units					2012
62-68 Chun Yeung Street . .	81 units	6,880 sq ft				2014
17-23 Jupiter Street . . . . .	84 units	3,083 sq ft				2014
14-30 King Wah Road . . . . .	336 units					2014
5 Kai Yuen Street, Lower Kai Yuen Lane and Upper Kai Yuen Lane . . . . .	648 units					2014
35-41 Ming Yuen Western Street . . . . .	48,020 sq ft					2014
2-4 Tanner Road . . . . .	510 units	131,096 sq ft				2014
1-7A Gordon Road . . . . .	56,946 sq ft	4,395 sq ft				2015
22 Java Road and 1-5 Yuet Yuen Street . . . . .	31,240 sq ft	1,612 sq ft				2015
14-20 Merlin Street . . . . .	41,107 sq ft	2,384 sq ft	351 rooms			2015
1-17 Hei Wo Street . . . . .	100 units	7,166 sq ft				2015
IL8920 Oil Street* . . . . .	TBC	Not more than 32,292 sq ft	Not less than 322,920 sq ft	Not more than 195,690 sq ft		Before 2018
704-730 King's Road and 201-227 Tsat Tsz Mui Road . . . . .	275,529 sq ft	74,163 sq ft				Under planning
88 Chun Yeung Street . . . . .	72,163 sq ft					Under planning
218 Electric Road . . . . .	88,155 sq ft					Under planning
21 Whitfield Road . . . . .			54 rooms			2011
118-120 Electric Road . . . . .			92 rooms			2012
14-16 Tsing Fung Street . . . . .			68 rooms			2012
9-11 Wing Hing Street . . . . .	36 rooms					2013
<b>Transport infrastructure</b>						
Wan Chai Development Phase II . . . . .						2017

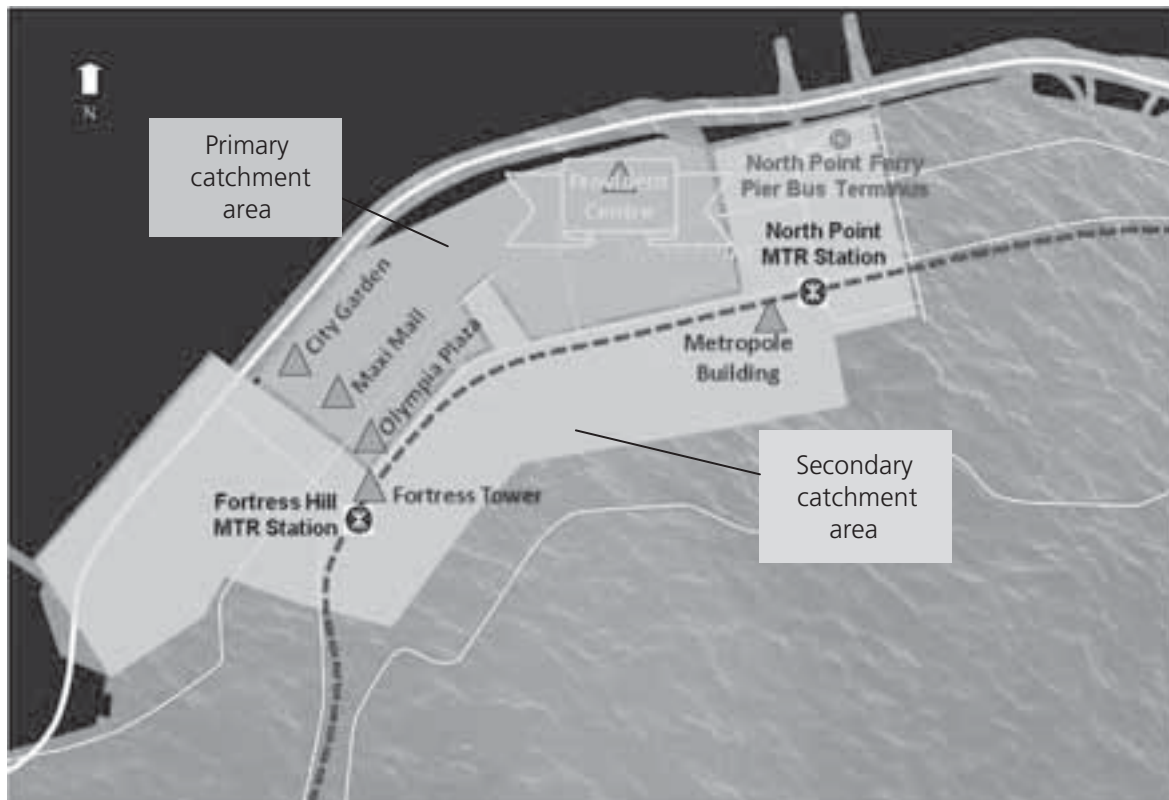
\* The total permissible area of IL8920 is 755,633 sq ft, of which the hotel portion should not be less than 322,920 sq ft

Source: Hong Kong Tourism Board, Buildings Department, Savills Research & Consultancy

The Wan Chai Development Phase II (WDII) is to provide land in north Wan Chai and North Point for the construction of the Central-Wan Chai Bypass and Island Eastern Corridor Link. Construction work for WDII in Wan Chai started in December 2009 and is expected to be completed in 2017, while work on WDII in North Point, under the supervision of the Highways Department, started at the end of 2009 for an envisaged completion in 2011.

### 2.2.3 Catchment area analysis

#### Primary and secondary catchment areas of Provident Centre



Source: Savills Research & Consultancy

**Legend**    ▲ Shopping centre    ⊙ Transportation terminus    - - - MTR line

#### *Basic demographics*

The Provident Centre catchment area can be separated into primary and secondary areas. The primary catchment area covers the developments around Provident Centre, such as City Garden to the west, and is bound by King's Road to the south and Tong Shui Road to the east, and includes Provident Centre itself, everything being within a ten-minute walk. Residents in the primary catchment area are expected to patronise Provident Centre at least weekly.

The secondary catchment area is defined as the area within a 20-minute walk and these residents are expected to patronise Provident Centre on a monthly basis. This secondary catchment area mainly covers the residential area across King's Road, and is bound by Kam Hong Street to the east and Hing Fat Street to the west, and includes an office cluster. The basic demographics of the primary and secondary catchment areas are listed in the following table:

## Basic demographics of the Provident Centre catchment areas, 2006

	Primary	Secondary	The whole territory
LSBG no. ....	151/14-15, 41; 153/07-09, 15-16, 56	151/02-07, 11-13, 19, 39-40, 43; 153/10-12, 17-18, 21-22, 27, 33-34, 37-39, 43-49, 51-55	
Population .....	26,631	52,437	6,864,346
Median age .....	(41.8)	(41.6)	39
Number of households .....	37-45 8,369	37-54 17,367	2,226,546
Average household size .....	3.18	3.02	3.0
Median monthly household income (HK\$) .....	28,970	24,991	17,250
Ratio between mortgage/loan repayment and median household income (%) .....	23.1-38.9 (average 30.8)	0.0-64.3 (average 31)	26.6
Ratio between rent and median household income (%) .....	25.6-38.7 (average 32.1)	13.1-36.7 (average 25.7)	16.0

Source: Census and Statistics Department, Savills Research & Consultancy

According to the 2006 Population By-census, the total population of the primary and secondary catchment areas stood at 79,068, representing 25,736 households. The median monthly household income of the two catchment areas ranged from HK\$28,970 to HK\$24,991, much higher than the territory-wide average, reflecting the middle-class status of the majority of residents.

The total disposable income pool is derived by deducting total mortgage/loan repayments and total rental payments of all households from the total monthly income of all households within a given catchment area. This income pool can be regarded as the maximum potential spending of all households within any given catchment area.

The total disposable income pools of the primary and secondary catchment areas were estimated at HK\$210 million and HK\$378 million respectively in 2006. Divided by the number of households in both areas, the per capita (household) disposable incomes of the primary and secondary catchment areas were HK\$25,100 and HK\$21,800 respectively, much higher than the Hong Kong Island average of HK\$19,900 in 2006.

Assuming that the total disposable income of the primary catchment area increased by 13.6%<sup>22</sup> from 2006 to 2011, the total disposable income pool of the primary catchment area could reach HK\$239 million, while the total disposable income pool of the secondary catchment area could reach HK\$439.8 million<sup>23</sup>.

### Projected demographics of Provident Centre, 2011

	Primary catchment	Secondary catchment	The whole territory
Population .....	26,631	52,878	7,108,100
Number of households .....	8,369	17,571	2,352,900
Total disposable income pool (HK\$ million) .....	239	439.8	39,853
Per capita (household) monthly disposable income (HK\$) .....	28,560	25,032	16,938

Source: Census and Statistics Department, EPRC, Savills Research & Consultancy

Aside from the primary and secondary catchment areas, there exists a worker catchment in office towers such as Fortress Tower, AIA Tower and 169 Electric Road.

#### 2.2.4 Competition analysis

Within the primary catchment area, City Garden Shopping Arcade and Maxi Mall in City Garden, as well as the retail portion of Olympia Plaza are Provident Centre's competitors. Fortress Centre Shopping Arcade and the retail portion of Metropole Building are the two competing retail spaces within the secondary catchment area. Provident Centre is in a better competitive position than all of these competing malls either on location, scale or trade and tenant mix profile.

##### *City Garden Shopping Arcade and Maxi Mall*

City Garden Shopping Arcade is the retail area of City Garden (Block 4 to Block 14) with a total floor area of 208,991 sq ft, whereas Maxi Mall is the retail area of Blocks 1 to 3 of City Garden with total floor area of 173,931 sq ft, both completed in 1986. City Garden Shopping Arcade and Maxi Mall are both adjacent to Provident Centre and are of a similar size, and are thus directly competing with Provident Centre geographically.

<sup>22</sup> Based on the growth rate of median household income from 2006 to 2011, Census and Statistics Department

<sup>23</sup> The two newer developments within the secondary catchment area, Lime Habitat and Mount East located on Ming Yuen Western Street, were not occupied in 2006 and thus were not included in the statistics above which are derived from the 2006 Population By-census. We have therefore estimated the number of households, population and income levels of the occupants of these apartments using selling prices and sales rates since their respective launches in 2009.

Based on Savills estimates, an additional 204 households and 441 residents could be included in the secondary catchment area, with monthly household incomes ranging from HK\$37,200 to HK\$290,100, which is much higher than the household income range of the original secondary catchment area. These new occupants bring an additional total disposable income of HK\$10.2 million to the area in 2011.

Assuming that the total disposable income of the original secondary catchment area increased by 13.6%<sup>23</sup> from 2006 to 2011, the total disposable income pool of the original secondary catchment area could reach HK\$429.6 million. Adding the additional disposable income of HK\$10.2 million from the new developments, the total disposable income pool of the entire secondary catchment area could reach HK\$439.8 million.

Both City Garden Shopping Arcade and Maxi Mall are strata-titled commercial properties offering a reasonable variety of trades. City Garden Shopping Arcade mainly focuses on F&B, beauty and health, supermarkets and services, including real estate agencies. Maxi Mall mainly focuses on local fashion, beauty and health, education, and entertainment, and to a certain degree, F&B. Provident Centre, which is under single ownership, enjoys the benefit of full property and leasing management control, and therefore has control over the overall positioning of the entire mall and the flexibility to combine or subdivide shops to rebalance its trade and tenant mix from time to time.

#### *Olympia Plaza*

The retail portion of Olympia Plaza is a three-level space with floor area of 35,188 sq ft completed in 1999 and situated next to City Garden with entrances on Electric Road and King's Road. This shopping arcade mainly focuses on local fashion and services. A Hong Kong Post Office and a Chinese restaurant are the two large occupiers leasing space on the 2/F.

#### *Fortress Centre Shopping Arcade*

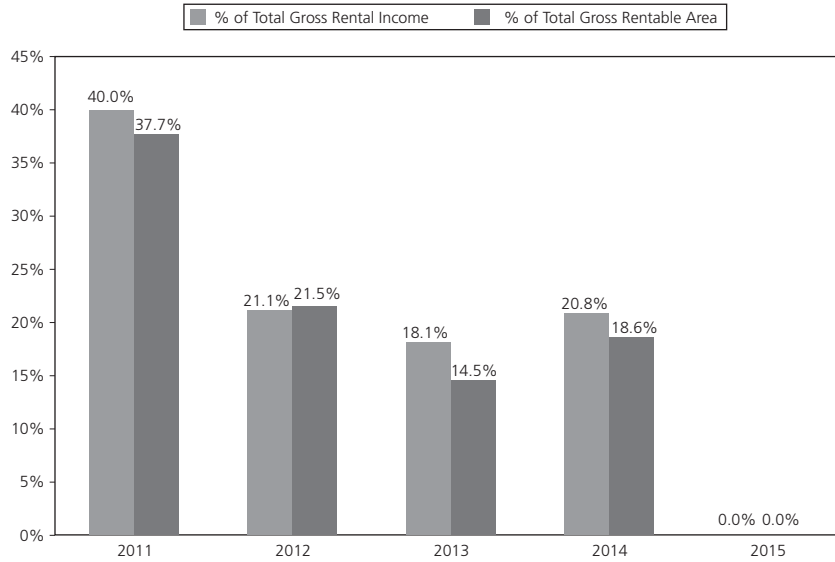
Across King's Road and located next to the exit of Fortress Hill MTR Station, Fortress Centre Shopping Arcade is the four-level retail space in Fortress Centre with a total floor area of 76,728 sq ft, completed in 1984. Tenants are mainly F&B outlets and also include a supermarket and some local fashion stores.

#### *Retail portion of Metropole Building*

The retail portion of Metropole Building contains four levels with an area of approximately 160,000 sq ft, and was opened in 1974. A supermarket and a Jusco \$10 Plaza are located on the basement floor, while a department store occupies three levels (G/F to 2/F) and an Esprit outlet occupies the fourth level (3/F). The department store offers a variety of trades, such as fashion, beauty and health, home appliances and toys. Metropole Building is located along King's Road and is situated next to the North Point MTR Station, and is to the eastern end of Provident Centre's secondary catchment. The retail portion of Metropole Building tends to cater to the necessities demand generated by its own primary residential catchment and does not compete directly with Provident Centre.

2.2.5 Provident Centre performance analysis

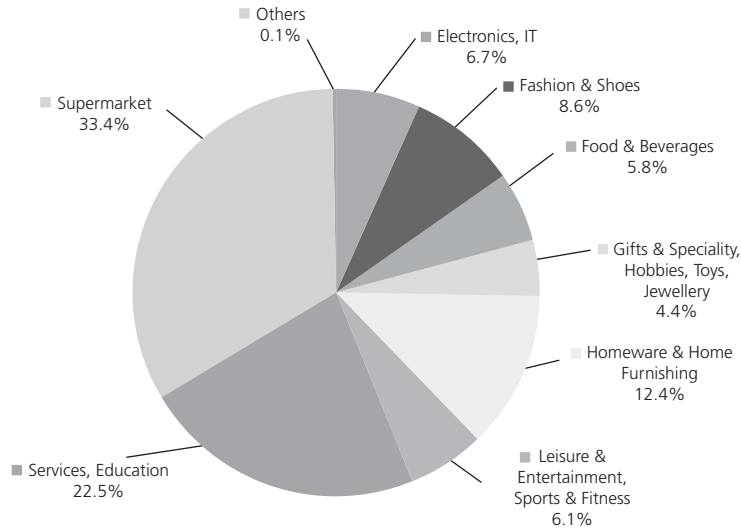
Lease expiry profile of Provident Centre, 2011-2015<sup>24</sup>



Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

Lease expiries are high in 2011, both in terms of rental income and floor area occupied. One main expiring tenant is an affiliate of the landlord, while other tenants reaching expiry are small with sizes ranging from 100 sq ft to 1,500 sq ft in GRA.

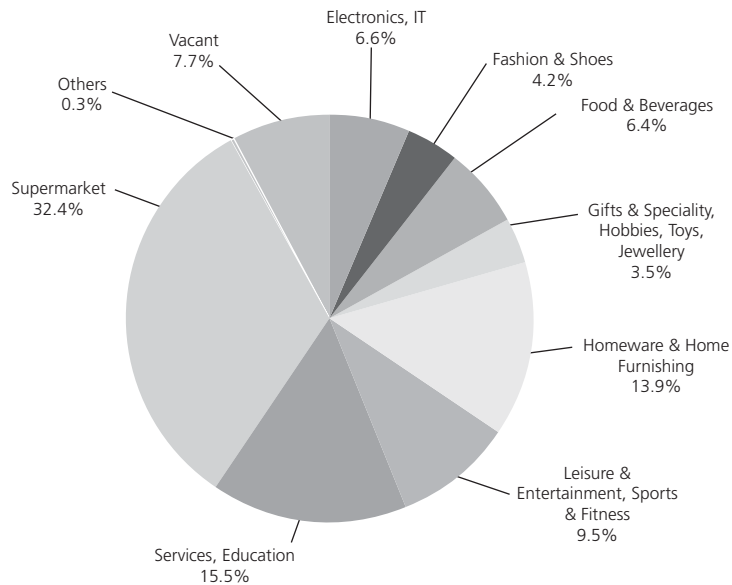
Trade mix by gross rental income of Provident Centre, Sep 2011



Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

<sup>24</sup> As of 30 September 2011

## Trade mix by GRA of Provident Centre, Sep 2011



Source: ARA Asset Management (Fortune) Limited, Savills Research & Consultancy

The supermarket in Provident Centre, the affiliate of the landlord, provided around 33% of the income and occupied 32% of the space in Provident Centre in September 2011.

### 2.2.6 Outlook

Provident Centre is located in a traditional residential area with strong primary catchment (26,000 persons) and facing little competition. As it is the largest shopping centre in the vicinity with a large PARKnSHOP as its anchor and tutorial schools as a major trade, it also successfully draws on many destination visitors from the secondary catchment area (52,000 persons). With no near-term plans for large-scale shopping centre developments in the vicinity, we anticipate that the strong position and competitive edge of Provident Centre can be retained. The signage at the entrance of the shopping centre could be exaggerated to make it more visible from North Point Road.

With its strong positioning within both primary and secondary catchments and with no competition within the immediate vicinity we expect rental growth of Provident to follow the broader non-core market trend. The lease expiries of large occupiers in 2011 are expected to be renewed at market levels with minimal impact on overall rental levels.

While most near-term residential completion in North Point is outside the catchment area of Provident Centre, a number of residential developments are going to be completed within both the primary and secondary catchments in 2014 and 2015 and should be positive catalyst for rental growth.

There is also potential for Provident Centre to tap the working catchments as the area gradually transforms itself from a purely residential area to a more vibrant commercial area with new developments such as the Oil Street project and North Point Estate redevelopment coming on stream in the longer run. With the establishment of

the F&B cluster along City Garden Road and Wharf Road the gradual addition of some specialty F&B outlets to the tenant mix could put Provident Centre in the middle of a critical mass of casual dining.

#### Rental forecast for Provident Centre, 2011E-2015E

	Non-core market	Provident Centre	Events related to Provident Centre
2011 .....	+14%	+14%	—
2012 .....	+7%	+7%	—
2013 .....	+8%	+8%	—
2014 .....	+7%	+7.5%	Residential completion in catchment areas
2015 .....	+7%	+8.5%	Residential completion in catchment areas Long-term benefits of district upgrade

Source: Savills Research & Consultancy



*Limitations on the report*

This report contains forward-looking statements which state Savills (Hong Kong) Limited's (the Consultant) beliefs, expectations, forecasts or predictions for the future. The Consultant stresses that all such forecasts and statements, other than statements of historical fact, outlined in this report should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forecasts involves assumptions about a considerable number of variables which are very sensitive to changing conditions. Variations of any one may significantly affect outcomes and the Consultant draws your attention to this.

The Consultant therefore can give no assurance that the forecasts outlined in this report will be achieved or that such forecasts and forward-looking statements will prove to have been correct and you are cautioned not to place undue reliance on such statements. The Consultant undertakes no obligation to publicly update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise, except as required by law, and all forward-looking statements contained in this summary report are qualified by reference to this cautionary statement.

The report is prepared by the Consultant for information only. While reasonable care has been exercised in preparing the report, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract. Interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No representation, warranty or covenant, express or implied, is given and no undertaking as to accuracy, reasonableness or completeness of the information contained in this report. In producing this report, the Consultant has relied upon external third-party information and on statistical models to generate the forward-looking statements. It should be noted, and it is expressly stated, that there is no independent verification of any of the external third-party documents or information referred to herein. This report is limited to the matters stated in it and no opinion is implied or may be inferred beyond the matters expressly stated herein.

Yours sincerely,  
**Savills (Hong Kong) Limited**  
**Simon Smith**  
*Senior Director*  
*Head of Research & Consultancy*

## 1. EXISTING INTERESTED PERSON TRANSACTIONS

Details of the existing Interested Person Transactions entered into between the Fortune REIT Group and certain entities within the CKH Group and the HWL Group in the current financial year are set out below:

Interested Person	Nature of transaction	Area (sq. ft.)	Start date	Term (Years)	Value of Interested Person Transaction in respect of the Existing Properties (excluding transactions of less than S\$100,000 (HK\$604,820) each)	Percentage of audited NAV/NTA <sup>(1)</sup>
					(HK\$' million) <sup>(2)</sup>	
A.S. Watson Group (HK) Limited	Tenancy at Smartland	3,477	5 January 2011	3	46.4	0.45%
	Tenancy at Fortune Metropolis	2,475	1 July 2011	3		
	Tenancy and Licence at Fortune Metropolis	8,599	1 November 2011	3		
	Tenancy at Smartland	31,446	1 August 2011	3		
	Tenancy at Rhine Avenue	14,022	23 May 2011	3		
Cheung Kong Property Development Limited	Licence at Fortune Metropolis	12,354	1 January 2011	0.5	31.5	0.30%
	Licence at Fortune Metropolis	31,383	1 July 2011	0.5		
	Licence at Fortune Metropolis	3,859	15 April 2011	2		
	Licence at Fortune Metropolis	3,859	1 May 2011	0.5		
Hutchison Telephone Company Limited	Licence at Fortune Metropolis	14,713	1 July 2011	1	0.7	0.01%
	Licence at Jubilee Square	—	1 November 2011	3		
Perfect Idea Limited	Licence at Fortune Metropolis	14,713	1 March 2011	0.3	1.4	0.01%
<b>Total</b>					<b>80.0</b>	<b>0.77%</b>

## Notes:

(1) Audited NAV/NTA of Fortune REIT as at 31 December 2010 of HK\$10,333.7 million.

(2) Exchange rate of S\$1.00 to HK\$6.0482 as at 3 January 2011.

These existing Interested Person Transactions have been subject to the internal control procedures established by the Manager to ensure that such transactions are undertaken on normal commercial terms and are not prejudicial to the interests of Fortune REIT or its

minority Unitholders. These procedures include the review and approval of such transactions by the Audit Committee. These transactions reported comply with the requirements of Chapter 9 of the Singapore Listing Manual.

## **2. RATIONALE AND BENEFIT OF EXISTING INTERESTED PERSON TRANSACTIONS**

The existing Interested Person Transactions relate to leases signed by the various interested persons as tenants of the Existing Properties. In addition to contributing to the income of the Existing Properties, these tenants are, by and large, very well-known major retailers in Hong Kong. For instance, Park'N Shop (which is a part of A.S. Watson Group (HK) Limited) is a leading supermarket chain and Watsons (which is also part of A.S. Watson Group (HK) Limited) is one of the largest personal care retailers in Hong Kong. Their presence enhances shopper traffic at the Existing Properties thereby improving the attractiveness of the Existing Properties.

## 1. RELATED TENANCY AND LICENCE AGREEMENTS

Upon Completion, Fortune REIT will, pursuant to the Asset Purchase Agreements and also through the Belvedere Garden Holding Companies, takeover all the tenancy agreements and licence agreements with respect to the New Properties, including various Related Tenancy and Licence Agreements. The aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements is estimated at HK\$97.4 million.

Interested Person	Nature of transaction	Area (sq. ft.)	Start Date	Term (Years)	Value of Interested Person Transaction, in respect of the New Properties (excluding transactions of less than S\$100,000 (HK\$604,820) each). (HK\$' million) <sup>(2)</sup>	Percentage of audited NAV/NTA <sup>(1)</sup>
A.S. Watson Group (HK) Limited	Tenancy at Provident Centre Property	6,364	1 January 2009	3	79.4	0.76%
	Tenancies at Provident Centre Property	58,469	1 January 2009	3		
	Tenancy at Provident Centre Property	2,404	1 March 2009	3		
	Tenancy at Belvedere Garden Property	22,773	1 April 2009	3		
	Tenancy at Belvedere Garden Property	3,113	1 January 2011	3		
	BIGBOXX.Com Limited	Tenancy at Belvedere Garden Property	13,364	1 September 2011		
Hutchison Global Communications Limited	Tenancy at Provident Centre Property	5,277	1 May 2011	3	3.3	0.03%
Hutchison International Limited	Tenancy at Belvedere Garden Property	14,592	1 January 2010	3	6.7	0.07%
Hutchison Telephone Company Limited	Tenancy at Belvedere Garden Property	358	1 August 2011	3	2.4	0.02%
<b>Total</b>					<b>97.4</b>	<b>0.94%</b>

## Notes:

(1) Audited NAV/NTA of Fortune REIT as at 31 December 2010 of HK\$10,333.7 million.

(2) Exchange rate of S\$1.00 to HK\$6.0482 as at 3 January 2011.

## **1. INFORMATION REGARDING THE LEASEHOLD TITLE TO THE PROPERTIES**

### **1.1 Belvedere Garden Property Phase I**

Belvedere Garden Property Phase I is held from the Government for the residue of the term of 99 years less the last three days thereof commencing from 1 July 1898 (the said term is extended until 30 June 2047 by virtue of Section 6 of the New Territories Leases (Extension) Ordinance 1988) under a Government Lease of Tsuen Wan Town Lot No. 308 deemed to have been issued under and by virtue of Section 14(3) of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) upon compliance with the conditions precedent contained in New Grant No.6583, dated 23 June 1986 made between Caratal Company Limited, Bysean Limited and the District Lands Officer, Tsuen Wan for and on behalf of the Governor of Hong Kong (such compliance being evidenced by a Certificate of Compliance dated 4 September 1987 and registered in the Land Registry by Memorial No.TW464901).

As the Government Grant binds all successors and assigns of the grantees, upon Completion, the Belvedere Garden (Remaining Portion) Holding Company will be bound by the Government Grant, although not a party to it.

- (a) Under Special Condition 14 of the Government Grant, the grantees shall provide, operate and maintain at the expenses of the grantees and to the satisfaction of the Director of Education within Tsuen Wan Town Lot No.308 one 6-classroom kindergarten of gross floor area not less than 571 square metres and an open playground with a minimum area of 91 square metres for use by the pupils of the said kindergarten only and shall contain such facilities as may be required by the Director of Lands.
- (b) Under Special Condition 14(d) of the Government Grant the gross floor area to be used for non-domestic purposes shall not more than 1,502 square metres of gross floor area of which not less than 193 square metres shall be used for clinic purposes.
- (c) Under Special Condition 25 of the Government Grant, the parking, loading and unloading spaces or car ports in Tsuen Wan Town Lot No.308 shall not be used for any purpose other than for the purpose of parking private motor vehicles belonging to the residents of the buildings erected thereon and their bona fide visitors or loading and unloading of service vehicles.

### **1.2 Belvedere Garden Property Phase II and Belvedere Garden Property Phase III**

Belvedere Garden Property Phase II and Belvedere Garden Property Phase III are held from the Government for the residue of the term of 99 years less the last three days thereof commencing from 1 July 1898 (the said term is extended until 30 June 2047 by virtue of Section 6 of the New Territories Leases (Extension) Ordinance 1988) under a Government Lease of Tsuen Wan Town Lot No. 316 deemed to have been issued under and by virtue of Section 14(3) of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) upon compliance with the conditions precedent contained in New Grant No.6639, dated 14 August 1987 made between Ling Fung Development Limited,

<b>APPENDIX 8 SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT</b>
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Wilmington Land Company Limited, Quebostar and the District Lands Officer, Tsuen Wan for and on behalf of the Governor of Hong Kong (such compliance being evidenced by a Certificate of Compliance dated 10 June 1991 and registered in the Land Registry by Memorial No.TW753243) as varied or modified by two Waiver Letters dated 3 March 1993 and 25 May 1998 and registered in the Land Registry by Memorial No.TW878559 and TW1214446 respectively.

Belvedere Garden Property Phase II is located and erected on Plot A of Tsuen Wan Town Lot No.316 as shown and coloured pink and marked Plot A on Plan I annexed to the Government Grant and Belvedere Garden Property Phase III is located and erected on Plot B of Tsuen Wan Town Lot No.316 as shown and coloured pink and marked Plot B on the said Plan I.

As the Government Grant binds all successors and assigns of the grantees upon Completion, the Belvedere Garden (Remaining Portion) Holding Company will be bound by the Government Grant, although not a party to it.

- (a) Under Special Condition 10 of the Government Grant, the grantees shall:
  - (i) provide, maintain and operate on Tsuen Wan Town Lot No.316 in accordance with the Master Plans and to such design and standard as shall be approved in writing by the Director of Lands a covered market comprising a total gross floor area of not less than 2,800 square metres inclusive of refuse collection and toilet facilities for the purpose of the retail sale of fresh household provisions and general household goods and the provisions of general household services. The covered market may require a licence or licences from the Director of Regional Services and shall be operated in all respects to the satisfaction of the Director of Lands. By virtue of two Waiver Letters dated 3 March 1993 and 25 May 1998 and registered in the Land Registry by Memorial No.TW878559 and TW1214446 respectively a portion of the covered market referred to in Special Condition 10(c)(iv) of New Grant No.6639 is permitted for the purpose of cooked food stalls for the terms and conditions therein contained.
  - (ii) erect, construct, provide operate and maintain within Tsuen Wan Town Lot No.316 at the expense of the grantees and to the satisfaction of the Director of Education a kindergarten or kindergartens which shall contain such facilities as may be required by and to the satisfaction of the Director of Education.
- (b) Under Special Condition 20(d) of the Government Grant, the grantees shall not exhibit or allow or suffer to be exhibited on the external parts of any buildings or structures erected on Tsuen Wan Town Lot No.316 or any pedestrian footbridges or any structures referred to in Special Condition No.17 of the Government Grant, any placard, poster, sign or advertisement whatsoever without the prior written approval of the Director of Lands.
- (c) Under Special Condition 25 of the Government Grant, no trees growing on Tsuen Wan Town Lot No.316 or adjacent thereto shall be removed or interfered with without the prior written consent of the Director of Lands who may, in granting consent, impose such conditions as to replanting as he may deem appropriate.

- (d) Under Special Condition 27 of the Government Grant, the parking, loading and unloading spaces or car ports in Tsuen Wan Town Lot No.316 shall not be used for any purpose other than for the purposes of parking of Government vehicles or such vehicles as authorized by the Director of Lands (only applicable to the private car parking space and the van parking space for use by Government vehicles under Special Condition 10(e)) and private motor vehicles belonging to the residents of the buildings erected thereon or loading and unloading of service vehicles.
- (e) Under Special Condition 22(a)(vi) of the Government Grant, the grantees shall not assign mortgage or charge or otherwise dispose of or part with possession of any of the undivided shares allocated to the common areas of Tsuen Wan Town Lot No.316 or any interest therein or enter into any agreement so to do save that with the prior written consent of the Registrar General (Land Officer) who shall have an absolute discretion in this respect the grantees may assign the whole of the said undivided shares (but not a part thereof) to an incorporated company whose principal business is that of estate management.

### **1.3 Provident Centre Property**

The Provident Centre Property is held from the Government for the residue of the renewed term of 75 years from 5 September 1996 under a new Government Lease of Inland Lot No.8465 deemed to have been issued under and by virtue of the Government Lease Ordinance (Chapter 40 of the Laws of Hong Kong) immediately upon expiry of the initial term of 75 years from 5 September 1921 granted under the Government Lease of Inland Lot No.8465 dated 18 February 1981 and made between Her Queen Elizabeth II and Provident Centre Development Limited.

As the Government Grant binds all successors and assigns of the lessee, upon Completion, the Provident Centre Holding Company will be bound by the Government Grant, although not a party to it.

Under the Government Grant:

- (a) The lessee shall sub-let to The Colonial Treasurer Incorporated (now The Financial Secretary Incorporated) the Government Accommodation shown on the Ground Floor and the Basement Floor Plans for whole of lease term and the renewal thereof in either case less the last 3 days for the purpose of Government Institutional and Community purposes only; and the Hong Kong Government shall be solely responsible for the fitting-out and partitioning of the Government Accommodation including the provision of air-conditioning satisfaction and shall pay in respect of the Government Accommodation a fair and reasonable proportion of the monthly management and maintenance charges of the buildings erected on Inland Lot No.8465; and in the event of the building or buildings in which the Government Accommodation is contained being redeveloped in accordance with the provisions of the Government Grant the said sublease may be determined by the lessee without payment of any compensation whatsoever and subject only to the lessee giving to the Colonial Treasurer (now The Financial Secretary Incorporated) not less than twelve calendar months prior notice in writing.

- (b) The lessee will not whether under the Public Reclamations and Works Ordinance or the Foreshores and Sea Bed Ordinance or any other Ordinance or otherwise:
  - (i) object to any reclamation or to the grant of any lease from the Government of the foreshore or sea bed to seaward of Inland Lot No.8465 or any part thereof;
  - (ii) claim or demand any compensation whatsoever in respect of the loss of any marine access private right or injurious affection resulting from any such reclamation or from the grant of any such Government Grant,

it being agreed and declared that the lessee shall have no private or other right over or in respect of the said foreshore or sea bed to seaward of Inland Lot No.8465 or any part thereof and no right of access from the Inland Lot No.8465 or any part thereof to the sea.

## **2. INFORMATION REGARDING THE DEED OF MUTUAL COVENANT TO THE PROPERTIES**

- 2.1** Each of the New Properties is subject to the deed of mutual covenant and other documents ("**DMC**") referred to in column B of Table 1 below. The DMC, in relation to the property referred to in column A of Table 1 below ("**Property**") is to make provision for the maintenance and management of the development (the "**Development**") erected on the land (the "**Land**") both referred to in column C of Table 1 below and the common areas and facilities of the Development and to define and regulate the rights, interests and obligations of the owners in respect of the Land and the Development and to provide for a due proportion of the relevant expenses to be borne by the owners.

As the DMC binds all owners of undivided shares of and in the Land and the Development, the party in column E of Table 1 below (the "**Owner**"), either as a party to the DMC or as the owner of the Property, is bound by the DMC. Upon Completion, the Belvedere Garden (Remaining Portion) Holding Company and the Provident Centre Holding Company will also be bound by the DMC. The manager ("**DMC Manager**") referred to in column D of Table 1 below is the manager appointed under the DMC and has a general power of management in relation to the Development in accordance with the provisions of the DMC. Its scope of responsibilities under the DMC include, *inter alia*, the general responsibilities referred to in section 7.4.2(3) of this Circular.



**APPENDIX 8 SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT**

**Table 1**

	<u>Property (column A)</u>	<u>DMC (column B)</u>	<u>Development and Land (column C)</u>	<u>Manager (column D)</u>	<u>Owner (column E)</u>
1.	Belvedere Garden Property Phase I	The deed of mutual covenant, dated 7 September 1987, was made between Caratal Company Limited (as first developer) and Bysean Limited (as second developer), Lam Ka Wa and Kwan Chi Kau Chero (as first purchaser) and Cayley Property Management Limited (as manager) and registered in the Land Registry by Memorial No. TW464903 (the " <b>Belvedere Garden (Phase I) DMC</b> ").	<b>"Belvedere Garden"</b> erected on Tsuen Wan Town Lot No.308	Cayley Property Management Limited	Bysean Limited and Quibonet Limited
2.	Belvedere Garden Property Phase II and Belvedere Garden Property Phase III	The deed of mutual covenant, dated 5 January 1990, was made between Ling Fung Development Limited (as first developer), Wilmington Land Company Limited (as second developer) and Quebostar (as third developer), So Wing Yin and Kwok Miu Fong Eliza (as first purchaser) and registered in the Land Registry by Memorial No. TW627242.	Plots A and B of Tsuen Wan Town Lot No.316	Not stated	Ling Fung Development Limited, Wilmington Land Company Limited, Quebostar and Quibonet Limited
3.	Provident Centre Property	The deed of mutual covenant dated 24 January 1983, was made between Provident Centre Development Limited (as first owner), Lee Seang Yut (as second owner) and Whampoa Property Management Limited (as the management company) and registered in the Land Registry by Memorial No.UB2372289.	<b>"Provident Centre"</b> erected on Inland Lot No.8465	Whampoa Property Management Limited	Provident Commercial Investments Limited

**2.2** Plots A and B of Tsuen Wan Town Lot No.316 are subject to the sub-deeds of mutual covenant ("**Sub-DMC**") referred to in column B of Table 2 below. The Sub-DMC, in relation to the Plots A and B of Tsuen Wan Town Lot No.316 referred to in column A of Table 2 below ("**Relevant Phase of Belvedere Garden Phases II and III**") is to make provision for the maintenance and management of Belvedere Garden Development Phase II and Belvedere Garden Development Phase III respectively erected on Plots A and B of Tsuen Wan Town Lot No.316 (the "**Relevant Plot of Belvedere Garden Phases II and III Land**") both referred to in column C of Table 2 below and the common areas and facilities of the Relevant Phase of Belvedere Garden Phases II and III and to define and regulate the rights, interests and obligations of the owners in respect of the Relevant Plot of Belvedere Garden Phases II and III Land and the Relevant Phase of Belvedere Garden Phases II and III and to provide for a due proportion of the relevant expenses to be borne by the owners.

<b>APPENDIX 8 SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT</b>
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As the Sub-DMC binds all owners of undivided shares of and in the Relevant Plot of Belvedere Garden Phases II and III Land and the Relevant Phase of Belvedere Garden Phases II and III, Ling Fung Development Limited, Wilmington Land Company Limited and Quebostar as a party to the Sub-DMC and owner of Belvedere Garden Property Phase II and Belvedere Garden Property Phase III and Quibonet Limited also being an owner of certain car parking spaces in Belvedere Garden Property Phase III are bound by the Sub-DMC. Upon Completion, the Belvedere Garden (Remaining Portion) Holding Company will also be bound by the Sub-DMC, although not a party to it.

**Table 2**

	Relevant Phase of Belvedere Garden Phases II and III Property (column A)	Sub-DMC (column B)	Relevant Portion of Belvedere Garden Phases II and III and Relevant Plot of Belvedere Garden Phases II and III Land (column C)
1.	Belvedere Garden Property Phase II	The sub-deed of mutual covenant, dated 5 January 1990, was made between Ling Fung Development Limited (as first developer), Wilmington Land Company Limited (as second developer) and Quebostar (as third developer), So Wing Yin and Kwok Miu Fong Eliza (as first purchaser) and Cayley Property Management Limited (as manager) registered in the Land Registry by Memorial No. TW627243.	Belvedere Garden Development Phase II erected on Plot A of Tsuen Wan Town Lot No.316
2.	Belvedere Garden Property Phase III	The sub-deed of mutual covenant, dated 12 June 1991, was made between Ling Fung Development Limited (as first developer), Wilmington Land Company Limited (as second developer) and Quebostar (as third developer), Tsang Che Kwong (as first purchaser) and Cayley Property Management Limited (as manager) registered in the Land Registry by Memorial No. TW753245.	Belvedere Garden Development Phase II erected on Plot B of Tsuen Wan Town Lot No.316

**2.3** The DMC in respect of Belvedere Garden Property Phase I also make provision for:

- (a) The maintenance and management of the landscaped areas within Tsuen Wan Town Lot No. 308 which the owners as successors-in-title of the grantees are obliged to maintain in accordance with the Landscape Proposals under Special Condition No.10 of the Government Grant;
- (b) The maintenance and management of the loading and unloading bays for the manoeuvring parking loading and unloading of good vehicles, the recreational facilities, the refuse collection facilities, the fire service installation, the kindergarten, public light bus terminus, the Government accommodation, the paved way, the pedestrian footbridge which required to be provided and maintained under the Government Grant.

<b>APPENDIX 8 SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT</b>
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- (c) The owner of car parking space or motorcycle parking space of Belvedere Garden Development Phase I shall not:
    - (i) mortgage charge or pledge his car parking space or motorcycle parking space (as the case may be) separately from the right to the exclusive use occupation and enjoyment of any commercial unit or domestic unit together with the undivided part or share thereof;
    - (ii) assign or otherwise dispose of his car parking space or motorcycle parking space (as the case may be) to any person other than the owner of a commercial unit or domestic unit.
- 2.4** The DMC and Sub-DMC in respect of Belvedere Garden Property Phase II also make provision for the maintenance and management of the followings in Plot A of Tsuen Wan Town Lot No.316 and in Belvedere Garden Development Phase II:
- (a) The landscaped areas within Plot A of Tsuen Wan Town Lot No.316 which the owners as successors-in-title of the grantees are obliged to maintain in accordance with the Landscape Proposals under the Government Grant;
  - (b) The Government accommodation, the kindergarten, the area or areas of active and passive recreational open space, the recreational facilities and facilities ancillary thereto, the footbridges, the refuse collection facilities, the space loading and unloading of service vehicles, access for fire service, the fire services installations which required to be provided and maintained under the Government Grant.
  - (c) Under Clause 23 of the Sub-DMC in respect of Belvedere Garden Property Phase II, Ling Fung Development Limited, Wilmington Land Company Limited and Quebostar are holding the common areas and the undivided parts or shares allocated thereto (being 2 equal undivided 147,063rd parts or shares of and in Tsuen Wan Town Lot No.316), as trustee for and on behalf of all owners of Plot A of Tsuen Wan Town Lot No.316 and the Belvedere Garden Development Phase II according to their respective undivided parts or shares of and in Tsuen Wan Town Lot No.316.
- 2.5** Belvedere Garden Property Phase II is also subject to a sub-sub-deed of mutual covenant dated 17 October 1997 and made between Ling Fung Development Limited, Wilmington Land Company Limited and Quebostar (as developers) and The Financial Secretary Incorporated (as purchaser) and registered in the Land Registry by Memorial No.TW1176168.

The purpose of such sub-sub-deed of mutual covenant is to make provision for defining the rights interests and obligations for the management, maintenance, repair, improvement and renovation of the Plot A of Tsuen Wan Town Lot No.316 and Belvedere Garden Development Phase II, between Ling Fung Development Limited, Wilmington Land Company Limited and Quebostar as owners of the Shops Nos.1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 12 on Ground Floor of the Belvedere Garden Development Phase II and The Financial Secretary Incorporated as owner of Shop No.13 on Ground Floor of Belvedere Garden Development Phase II.

<b>APPENDIX 8 SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT</b>
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- 2.6 Pursuant to the Belvedere Garden Property Phase I DMC, the parties therein entered into a Management Agreement dated 7 September 1987 (registered in the Land Registry by Memorial No.TW464904) and appointed Cayley Property Management Limited as DMC Manager of Belvedere Garden Development Phase I.
- 2.7 Pursuant to a Chinese management agreement dated 4 August 2003 and registered in the Land Registry by Memorial No.TW1535294, Hang Yick Properties Management Limited is appointed as the Sub-DMC Manager of Belvedere Garden Development Phase II.
- 2.8 Pursuant to a management agreement dated 28 July 2007 and registered in the Land Registry by Memorial No.07081701700025, Funing Property Management Limited is appointed as the Sub-DMC Manager of Belvedere Garden Development Phase III.
- 2.9 The DMC and Sub-DMC in respect of Belvedere Garden Property Phase III also make provision for the maintenance and management of the followings in Plot B of Tsuen Wan Town Lot No.316 and in Belvedere Garden Development Phase III:
- (a) The landscaped areas which the owners as successors-in-title of the grantees are obliged to maintain in accordance with the Landscape Proposals under the Government Grant;
  - (b) The market, the Government accommodation, the kindergarten, the area or areas of active and passive recreational open space, the recreational facilities and facilities ancillary thereto, the footbridges, the refuse collection facilities, the space loading and unloading of service vehicles, access for fire service, the fire services installations which required to be provided and maintained under the Government Grant.
  - (c) Under Clause 23 of the Sub-DMC in respect of Belvedere Garden Property Phase III, Ling Fung Development Limited, Wilmington Land Company Limited and Quebostar are holding the common areas and the undivided parts or shares allocated thereto (being 2 equal undivided 147,063rd parts or shares of and in Tsuen Wan Town Lot No.316), as trustee for and on behalf of all owners of Plot B of Tsuen Wan Town Lot No.316 and the Belvedere Garden Development Phase III according to their respective undivided parts or shares of and in Tsuen Wan Town Lot No.316.
- 2.10 Belvedere Garden Property Phase III is also subject to a deed in respect of the sub-dmc and the areas dated 27 March 2008 and made between The Incorporated Owners of Belvedere Garden Phase III, Ling Fung Development Limited, Wilmington Land Company Limited, Quebostar, Cayley Property Management Limited and Funing Property Management Limited and registered in the Land Registry by Memorial No.08033100970255 (the "**Belvedere Garden (Phase III) Deed**").

The purpose of the Belvedere Garden (Phase III) Deed is to make provision for defining the basis for payment of management fees by owners of the residential blocks of Belvedere Garden Development Phase III and Ling Fung Development Limited, Wilmington Land Company Limited, Quebostar and the application of such management fees under the sub-deed of mutual covenant of Belvedere Garden Property Phase III and also the exclusive right to use, occupation and enjoyment of such parts or areas of and in the commercial podium of Belvedere Garden Development Phase III and the management of the commercial units in Belvedere Garden Development Phase III.

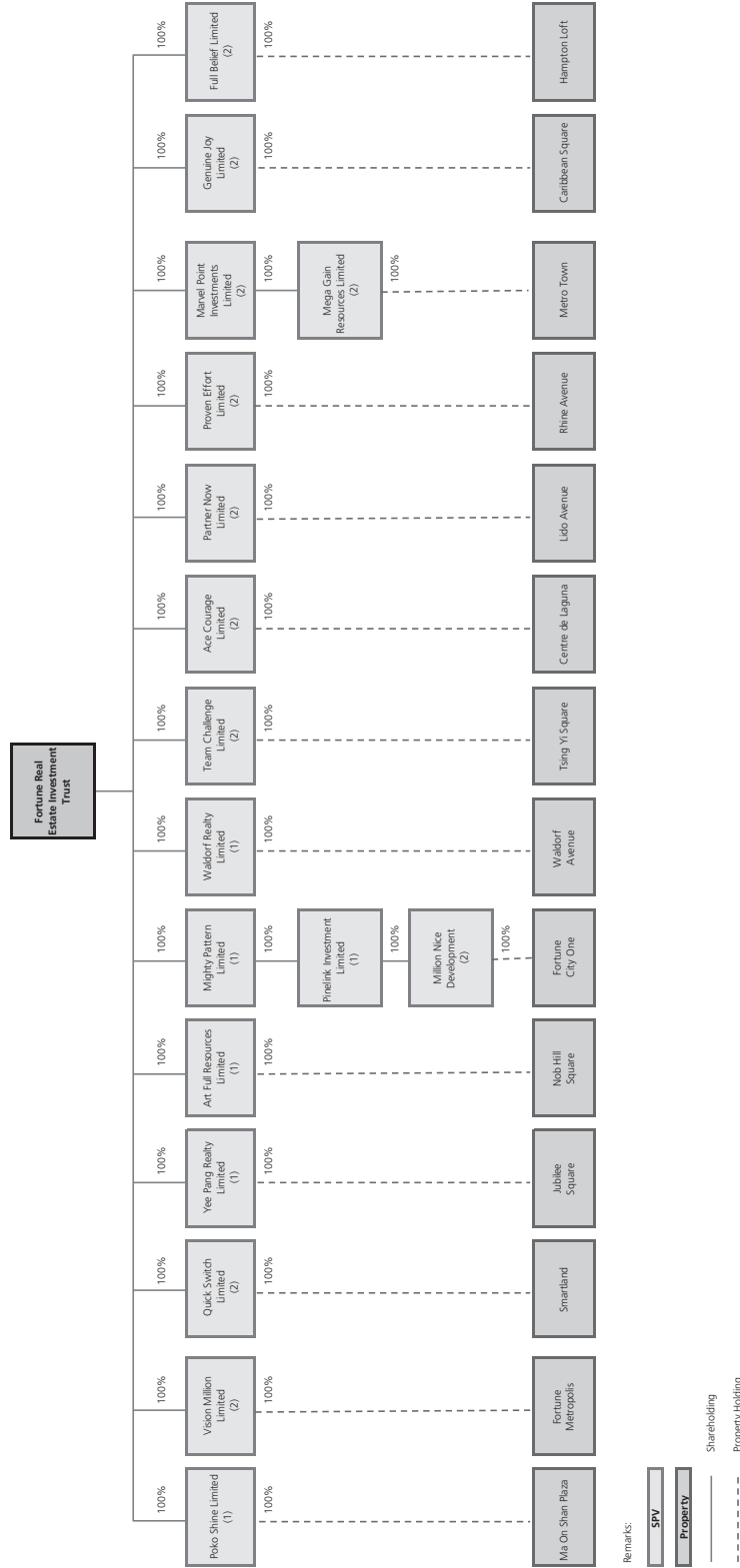
<b>APPENDIX 8    SUMMARY OF GOVERNMENT GRANTS AND DEEDS OF MUTUAL COVENANT</b>
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As the Belvedere Garden (Phase III) Deed binds all owners of undivided shares of and in Belvedere Garden Development Phase III, upon Completion, the Belvedere Garden (Remaining Portion) Holding Company will also be bound by the Belvedere Garden (Phase III) Deed, although not a party to it.

- 2.11** The DMC in respect of the Provident Centre Property also makes provision for the maintenance and management of the open space for recreational purposes by the owners, the promenade, pleasure ground and steps or other means of access thereto intended for public use under the Government Grant.

The following are charts showing the property holding structure of Fortune REIT immediately prior to and after Completion.

Chart 1 – Property holding structure of Fortune REIT immediately prior to Completion



Remarks:

SPV

Property

Shareholding

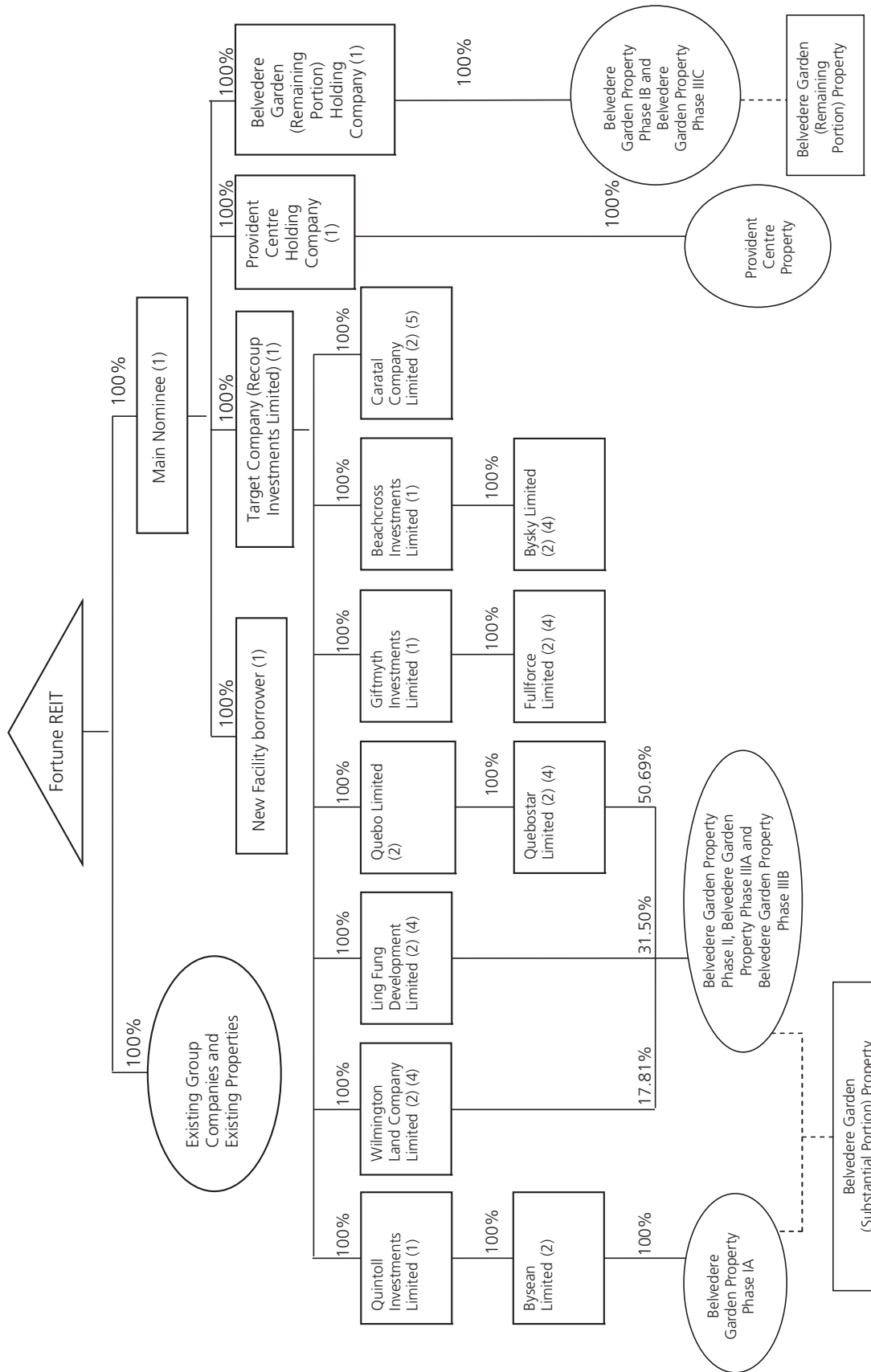
Property Holding

Notes:

(1) Incorporated in the British Virgin Islands.

(2) Incorporated in Hong Kong.

Chart 2 — Proposed property holding structure of Fortune REIT immediately after Completion



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Notes:

- (1) Incorporated in the British Virgin Islands.
- (2) Incorporated in Hong Kong.
- (3) All percentages shown above reflect the registered legal ownership percentages in respect of the relevant property.
- (4) Ling Fung Development Limited, Quebostar and Wilmington Land Company Limited are, as tenants in common in the proportions as are shown in the chart above, the registered legal owners of Belvedere Garden Property Phase II, Belvedere Garden Property Phase IIIA and Belvedere Garden Property Phase IIIB. Based on a shareholders agreement in relation to Quebostar dated 12 November 1987 and board resolutions of these companies dated 6 November 1989, despite the allocation of such proportions or shares of ownership, all the economic interest in Belvedere Garden Property Phase II and Belvedere Garden Property Phase IIIA is held by Quebostar. Based on the same shareholders agreement and board resolutions referred to above, despite the allocation of the proportions or shares of registered legal ownership noted above, all the economic interest in Belvedere Garden Property Phase IIIB is held by and among Fullforce Limited (as to 36.13%) and Bysky Limited (as to 63.87%). For this purpose, "economic interest" means the economic or de facto ownership, enjoyment or actual receipt of the sale proceeds and rental income and other income of whatsoever nature from the relevant properties.
- (5) By certain assignments dated 30 November 2009, Caratal Company Limited transferred its undivided shares and interest in Belvedere Garden Property Phase IA to Bysean Limited, of which Bysean Limited is currently the registered legal owner.



## 1. DISCLOSURE OF INTERESTS IN UNITS

### Unit Capital

The total number of issued Units as at the Latest Practicable Date is 1,680,695,942 Units.

### Holdings of Significant Unitholders and Other Unitholders

As at the Latest Practicable Date, each of the following persons was considered a "significant Unitholder", and hence a Connected Person of Fortune REIT, for the purpose of the REIT Code:

Name	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Focus Eagle Investments Limited <sup>(1)</sup>	413,074,684	24.58%	—	—
Cheung Kong <sup>(1)</sup>	—	—	525,630,684	31.27%
Schroders Plc <sup>(2)</sup>	—	—	168,779,000	10.04%

In addition to the significant Unitholders as disclosed above, each of the following persons held, or was deemed to hold 5% or more of the issued Units as at Latest Practicable Date:

Name	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Ballston Profits Limited <sup>(1)</sup>	112,556,000	6.70%	—	—
HWL <sup>(1)</sup>	—	—	112,556,000	6.70%
DBS Bank Ltd. <sup>(3)</sup>	90,070,000	5.36%	—	—
DBS Group Holdings Ltd. <sup>(3)</sup>	—	—	90,070,000	5.36%
The Real Return Group Limited <sup>(4)</sup>	—	—	91,950,961	5.47%

#### Notes:

- (1) Focus Eagle Investments Limited was an indirect wholly-owned subsidiary of Cheung Kong; and Ballston Profits Limited was an indirect wholly-owned subsidiary of HWL, an associate of Cheung Kong. Therefore, Cheung Kong was deemed to hold 525,630,684 Units, of which: (i) 413,074,684 Units were held by Focus Eagle Investments Limited; and (ii) 112,556,000 Units were held by Ballston Profits Limited; HWL was deemed to hold 112,556,000 Units, which were held by its indirect wholly-owned subsidiary, Ballston Profits Limited.
- (2) Schroders Plc was deemed to be interested in 168,779,000 Units of which:
  - (a) 94,007,000 Units were held by Schroder Investment Management Limited;
  - (b) 54,058,000 Units were held by Schroder Investment Management (Singapore) Limited;
  - (c) 20,505,000 Units were held by Schroder Investment Management (Hong Kong) Limited; and
  - (d) 209,000 Units were held by Schroder (C.I.) Limited.
- (3) DBS Group Holdings Ltd. was deemed to be interested in 90,070,000 Units held by its wholly-owned subsidiary, DBS Bank Ltd.
- (4) The Real Return Group Limited was deemed to be interested in 91,950,961 Units of which:

- (a) 90,523,961 Units were held by Veritas Asset Management (UK) Ltd; and
- (b) 1,427,000 Units were held by Veritas Asset Management AG.

### Interests of the Manager

As at the Latest Practicable Date, the Manager held 3,399,646 Units, or approximately 0.20% of the issued Units of Fortune REIT.

### Interests of the Directors and Senior Executives

Details of the unitholding interests of the Directors and senior executives in Fortune REIT as at the Latest Practicable Date were as follows:

Name of Directors	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Lim Hwee Chiang <sup>(1)</sup> . . . . .	—	—	5,499,646	0.33%
Sng Sow-Mei (alias Poon Sow Mei) . . . . .	220,000	0.01%	—	—

Note:

- (1) Mr. Lim Hwee Chiang was deemed to be interested in a total of 5,499,646 Units of which:
  - (a) 3,399,646 Units were held by the Manager (a wholly-owned subsidiary of ARA), Mr. Lim was deemed to be interested in these Units by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporations including ARA; and;
  - (b) 2,100,000 Units were held by Citibank Nominees Singapore Pte. Ltd. (as nominee for JL Philanthropy Ltd). The beneficiary of JL Philanthropy Ltd is JL Charitable Settlement and Mr. Lim is the settlor of JL Charitable Settlement.

Save as disclosed above, none of the Manager, the Directors and the chief executive of the Manager was interested (or deemed to be interested) in Units, or held any short position in Units, and the Manager is not aware of any Connected Persons of Fortune REIT who were interested (or deemed to be interested) in Units as at the Latest Practicable Date.

So far as is known to the Directors or chief executive of the Manager:

- (a) save as disclosed in this Circular, none of the Directors and the Unitholders with an interest in more than 5% of all Units in issue has an interest, direct or indirect, in the Acquisition;
- (b) save as disclosed in this Circular, no person (other than a Director) is interested (or deemed to be interested) in Units, or holds any short position in Units which were required to be disclosed to the Manager and the Hong Kong Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as if such divisions were applicable to REITs;
- (c) save as disclosed in this Circular, none of the Directors or chief executives of the Manager has any interests or short positions in the Units of Fortune REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Manager and the Hong Kong Stock Exchange

pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), which the Trust Deed, subject to certain exceptions, deems to apply to the Directors and chief executive of the Manager, the Manager and each Unitholder and all persons claiming through or under them.

## 2. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

Save as disclosed in this Circular, as at the Latest Practicable Date:

- (a) none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since the date that the latest published audited accounts of Fortune REIT were prepared, acquired or disposed of by (or leased to) or are proposed to be acquired or disposed of by (or leased to) Fortune REIT;
- (b) none of the Directors or proposed Directors was materially interested in any contract or arrangement entered into by Fortune REIT and subsisting at the date of this Circular which was significant in relation to Fortune REIT's business; and
- (c) none of the Directors or proposed Directors or any of their associates had interests in a business which competes or is likely to compete, either directly or indirectly, with Fortune REIT's business.

## 3. STATEMENT IN RELATION TO FINANCIAL POSITION

The Manager confirms that, as at the Latest Practicable Date, there had not been any material adverse change in the financial or trading position of Fortune REIT since the date that the latest published audited accounts of Fortune REIT were prepared.

## 4. WORKING CAPITAL

Taking into consideration the financial resources available to Fortune REIT, including its internally generated funds and the New Facility and Existing Facility (collectively, the "Acquisition Facilities"), the Manager believes that Fortune REIT has sufficient liquid assets to meet its working capital and operating requirements for the 12 month period commencing from the date of this Circular. To the extent that Fortune REIT makes any acquisitions or undertakes major asset enhancement initiatives, it may be required to rely on external borrowings and/or Unit or debt securities offerings to finance such acquisitions or asset enhancement initiatives.

## 5. INDEBTEDNESS

### Indebtedness of Fortune REIT

As at 31 October 2011, Fortune REIT had total bank borrowings drawn down of HK\$3,650.0 million.

The facilities were secured by, *inter alia*, a mortgage over certain investment properties. The Trustee has provided a guarantee for the facilities subject to the recourse of lenders being limited to the Deposited Property of Fortune REIT.

Save as disclosed above and apart from the intra-group liabilities, Fortune REIT did not have any loan capital issued and outstanding, nor had Fortune REIT agreed to issue any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness,

debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the Latest Practicable Date.

### Indebtedness of Target Company

As at 31 October 2011, the Target Company had interest bearing total borrowings of HK\$118.4 million from HWL Group.

Save as disclosed above and apart from the intra-group liabilities, the Target Company did not have any loan capital issued and outstanding, nor had the Target Company agreed to issue any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the Latest Practicable Date.

## 6. EXPERTS AND CONSENTS

Each of the Independent Financial Advisers, the Independent Property Valuers, the Market Consultant, the Auditors and the Reporting Accountants has given and has not withdrawn its written consent to the inclusion of its name in this Circular. Each of the parties above has also given its consent to the inclusion of its name (where relevant) in the Letter from the Independent Financial Advisers, the accountants' report in respect of the Target Company and 35% interest in Quebostar as set out in Appendix 2 to this Circular ("**Accountants' Report**"), pro forma financial information of the Enlarged Group as set out in Appendix 3 to this Circular, the Independent Property Valuers' New Properties Valuation Reports, the Market Consultant's Report and all references thereto, in the form and context in which they are included in this Circular.

The following are the qualifications of the experts who have been named in this Circular or have given opinion or advice which are contained in this Circular.

Deloitte Touche Tohmatsu	Certified Public Accountants
Deloitte & Touche LLP	Public Accountants and Certified Public Accountants
CIMB Bank Berhad	Licensed under the Banking Act (Cap. 19) of Singapore and exempted under Section 99(1) of the Securities and Futures Act (Cap. 289) of Singapore from the requirement to hold a capital markets services licence to carry on business in any regulated activity (including advising on corporate finance)
CIMB Securities (HK) Limited	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Savills Valuation and Professional Services Limited	Chartered Surveyors and Valuers
Knight Frank Petty Limited	Chartered Surveyors and Valuers
Savills (Hong Kong) Limited	Market Consultant

As at the Latest Practicable Date, none of the experts had any interest in Fortune REIT or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in Fortune REIT.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since 20 April 2010, being the date on which the Units were first listed on the Hong Kong Stock Exchange, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to Fortune REIT.

## 7. LITIGATION

As at the Latest Practicable Date, none of Fortune REIT, the Manager, the Trustee (in its capacity as the trustee of Fortune REIT), the Target Company Group, or any of the Group Companies were involved in any litigation or claims of material importance and no litigation or claims of material importance, by or against Fortune REIT, the Manager, the Trustee, the Target Company Group or any of the Group Companies, was pending or threatened.

## 8. MATERIAL CONTRACTS

Save as disclosed in the Introduction Listing Document and Fortune REIT's previous announcements on the Hong Kong Stock Exchange and the SGX-ST, and save for the documents referred to in paragraph 9(a) below, Fortune REIT has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date in this Circular. Please refer to section 2.4 headed "**The Transaction and Acquisition Facilities — The Purchase Agreements**" in this Circular for further details of the Purchase Agreements and to the Introduction Listing Document for details of the other material contracts.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at no charge during normal business hours at the offices of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days<sup>55</sup>, from the date of this Circular, up to and including the date of the EGM:

- (a) the Purchase Agreements (and the attachments thereto, and all material contracts relating to the Acquisition mentioned in this Circular);
- (b) the consolidated audited accounts of Fortune REIT for the period from 1 January 2010 to 31 December 2010, and the consolidated unaudited accounts of Fortune REIT for the period from 1 January 2011 to 30 June 2011;
- (c) the Accountants' Report;
- (d) the unaudited pro forma financial information of the Enlarged Group disclosed under Appendix 3 to this Circular;
- (e) the Letter from the Independent Board Committee and the Audit Committee;
- (f) the Letter from the Independent Financial Advisers;

<sup>55</sup> "**Business Day**" means any day (other than a Saturday, Sunday and gazetted public holiday) on which (i) commercial banks are open for business in Singapore and the SGX-ST is open for trading, and (ii) for so long as Fortune REIT is a SFC-Authorised REIT, commercial banks are open for business in Hong Kong and the SEHK is open for trading.

- (g) the Market Consultant's Report;
- (h) the Independent Property Valuers' New Properties Valuation Reports;
- (i) the Introduction Listing Document;
- (j) the written consents of the Independent Financial Advisers;
- (l) the written consents of the Independent Property Valuers;
- (l) the written consent of the Market Consultant;
- (m) the written consent of Auditors and Reporting Accountants;
- (n) the announcement dated 28 December 2011 made by the Manager in relation to the Transaction; and
- (o) all material contracts disclosed under section 8 of Appendix 10 headed "**General Information**" to this Circular.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as Fortune REIT continues to be in existence.

NOTICE OF EXTRAORDINARY GENERAL MEETING

**FORTUNE**  
置富產業信託 **REIT**

**Fortune Real Estate Investment Trust**

*(constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003  
(as amended) and authorised as a collective investment scheme under section 286  
of the Securities and Futures Act, Chapter 289 of Singapore)*

*(a collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: Singapore: F25U and Hong Kong: 778)**

Managed by



ARA Asset Management (Fortune) Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an **EXTRAORDINARY GENERAL MEETING** of the Unitholders (the “Unitholders”) of Fortune Real Estate Investment Trust (“**Fortune REIT**”) will be held at Rooms 208-209, Level 2, Suntec Singapore International Convention and Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on 19 January 2012 at 3:00 p.m. (“**EGM**”) for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution:

**ORDINARY RESOLUTION**

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF THE BELVEDERE GARDEN PROPERTY AND THE PROVIDENT CENTRE PROPERTY, CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS**

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular dated 28 December 2011 (the “**Circular**”).

“**THAT** approval (which, where relevant, shall include approval by way of ratification) be and is hereby given for:

- (a) the Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction) and the takeover of the Related Tenancy and Licence Agreements in relation to the New Properties at Completion; and
- (b) the 2011 Continuing Connected Party Transactions together with the proposed new annual monetary limits for the financial years ending 31 December 2012, 31 December 2013 and 31 December 2014,

as more fully described in the Circular.

<b>NOTICE OF EXTRAORDINARY GENERAL MEETING</b>
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**AND THAT** authorisation be granted to the Manager, any director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Fortune REIT to give effect to all matters in relation to the Transaction and the 2011 Continuing Connected Party Transactions generally.

By Order of the Board  
**ARA ASSET MANAGEMENT (FORTUNE) LIMITED**  
(as manager of Fortune Real Estate Investment Trust)  
**ANG Meng Huat, Anthony**  
*Chief Executive Officer*

Singapore, Hong Kong, 28 December 2011

Singapore office and registered address:  
6 Temasek Boulevard  
#16-02 Suntec Tower Four  
Singapore 038986

Hong Kong office:  
Units 5508-5510, 55th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

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Notes:

1. A Unitholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. The person appointed to act as a proxy need not be a Unitholder.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar of Fortune REIT, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders), not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
3. Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders of Fortune REIT in respect of such Unit shall alone be entitled to vote in respect thereof.
4. The Register of Unitholders will be closed from 13 January 2012 to 19 January 2012 both days inclusive to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the meeting convened by the above notice, all Unit certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) for registration by 4:30 p.m. on 12 January 2012 or to the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders) for registration by 5:00 p.m. on 12 January 2012.



## NOTICE OF EXTRAORDINARY GENERAL MEETING

5. In compliance with the Trust Deed, the REIT Code and the Singapore Listing Manual, the CKH Group, Manager Group and HWL Group and their respective associates, subsidiaries and associated companies shall abstain from voting on the EGM Resolution as more particularly described in sections 8.4 and/or 9.6 of the Circular.

*The Directors of the Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Mr. Ip Tak Chuen, Edmond and Ms. Yeung, Eirene as Non-executive Directors; Mr. Ang Meng Huat, Anthony and Ms. Chiu Yu, Justina as Executive Directors; Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Lan Hong Tsung, David as Independent Non-executive Directors; and Mr. Ma Lai Chee, Gerald as Alternate Director to Mr. Ip Tak Chuen, Edmond.*

**PROXY FORM**

**PROXY FORM  
— EXTRAORDINARY GENERAL MEETING**

**FORTUNE REAL ESTATE INVESTMENT TRUST**

*(Constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003)  
(A collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**IMPORTANT**

**PLEASE READ THE NOTES TO THE PROXY FORM.**

**PROXY FORM  
EXTRAORDINARY GENERAL MEETING**

I/We \_\_\_\_\_ (Name)

Of \_\_\_\_\_ (Address)

being a unitholder/unitholders of Fortune Real Estate Investment Trust ("Fortune REIT"), hereby appoint:

Name	Address	Identification/ Passport Number	Proportion of Unitholdings	
			No. of Units	%

and/or (delete as appropriate)

Name	Address	Identification/ Passport Number	Proportion of Unitholdings	
			No. of Units	%

or, both of whom failing, the Chairman of the Extraordinary General Meeting ("EGM") as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the EGM of Fortune REIT to be held at Rooms 208-209, Level 2, Suntec Singapore International Convention and Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on 19 January 2012 at 3:00 p.m. and any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolution to be proposed at the EGM as indicated hereunder. If no specific direction as to voting is given, the proxy/ proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the EGM.

No.	Resolution	To be used in the event of a poll	
		No. of Votes For*	No. of Votes Against*
1.	(a) The Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction) and the takeover of the Related Tenancy and Licence Agreements in relation to the New Properties at Completion; and  (b) The 2011 Continuing Connected Party Transactions together with the proposed new annual monetary limits for the financial years ending 31 December 2012, 31 December 2013 and 31 December 2014.		

\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Completion and delivery of this form of proxy will not preclude you from attending and voting at the EGM if you so wish.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2012

Total number of Units held

\_\_\_\_\_  
Signature(s) of Unitholder(s)/Common Seal

## PROXY FORM

### IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM BELOW

#### Notes to Proxy Form

1. Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
2. A Unitholder entitled to attend and vote at the EGM is entitled to appoint one or two proxies to attend and vote in his stead.
3. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
4. A proxy needs not be a Unitholder but must attend the EGM to represent the Unitholder.
5. A Unitholder should insert the total number of Units held. If the Unitholder has Units registered in his name in the principal register of Unitholders (the "**Singapore Unit Register**") or the Hong Kong register of Unitholders (the "**Hong Kong Unit Register**") and together with the Singapore Unit Register, the "**Unit Registers**"), he should insert the aggregate number of Units registered in his name on the Unit Registers. If the Unitholder has Units entered against his name in the Depository Register maintained by the Central Depository (Pte) Limited ("**CDP**"), he should insert that number of Units. If the Unitholder has Units entered against his name in the said Depository Register, as well as registered in his name in the Unit Registers, he should insert the aggregate number of Units entered against his name in the Depository Register and Unit Registers. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by Unitholder.
6. In the case of joint Unitholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Unitholder(s), and for this purpose seniority will be determined by the order in which the names stand on the Depository Register and/or the Register of Unitholders in respect of the relevant joint holding.
7. Any alteration made to this form of proxy must be initialled by the person who signs it.
8. The instrument appointing a proxy or proxies must be lodged at: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders), not less than forty-eight (48) hours before the time appointed for EGM.
9. The instrument appointing a proxy or proxies must be executed under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
10. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must (failing previous registration with the Manager) be lodged with the instrument of proxy; failing which the instrument may be treated as invalid.
11. The Manager shall be entitled to reject a Proxy Form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of Units entered in the Depository Register, the Manager may reject a Proxy Form if the Unitholder, being the appointor, is not shown to have Units entered against his name in the Depository Register as at 48 hours before the time appointed for holding the EGM, as certified by CDP to the Manager.
12. All Unitholders will be bound by the outcome of the EGM regardless of whether they have attended or voted at the EGM.
13. For so long as Fortune REIT is a SFC-authorized REIT, 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.