

Asset Acquisitions and Disposals::Disposal of Property

Issuer & Securities

Issuer/ Manager	ARA ASSET MANAGEMENT (FORTUNE) LIMITED
Securities	FORTUNE REAL ESTATE INV TRUST - SG1O33912138 - F25U
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Announcement Details

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Submitted By (Co./ Ind. Name)	Justina Chiu
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Attachments	📎 FORTUNE-Disposal of property-11Feb2015.pdf Total size =203K

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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

DISPOSAL OF PROPERTY

On 11 February 2015, the Trustee as Vendor and Tower Key Limited as Purchaser, an independent third party, entered into the Sale and Purchase Agreement pursuant to which the Vendor agreed to sell all the issued shares of Art Full, the legal and beneficial owner of Nob Hill Square (盈暉薈), to the Purchaser.

The Consideration payable by the Purchaser for the purchase of the Sale Shares shall be the Adjusted Asset Value (i.e. Disposal Amount of HK\$648,000,000 plus or minus Other Net Current Assets/Liabilities as at Completion), subject to Post-Completion Adjustments.

The Disposal Amount of HK\$648,000,000 represents a premium of approximately 47.9% to the Appraised Value of HK\$438,000,000.

A cash deposit of HK\$64,800,000 (representing 10% of the Disposal Amount) was paid to the Vendor by the Purchaser upon signing of the Sale and Purchase Agreement.

This announcement is made pursuant to paragraph 10.3 of the REIT Code and Chapter 7 of the Singapore Listing Manual. The Disposal Amount represents approximately 1.84% of the total assets of Fortune REIT as at 31 December 2014 (as shown in the final results announcement of the Fortune REIT dated 21 January 2015 for the year ended 31 December 2014, less the distribution payable for the period from 1 July 2014 to 31 December 2014 and after taking into account of the acquisition of Laguna Plaza which was completed on 9 January 2015), which does not exceed 15% of the gross asset value of Fortune REIT as at 31 December 2014. Accordingly, the Manager is satisfied that the Transaction is not required to be approved by Unitholders pursuant to the REIT Code. Based on and in sole reliance on the opinion of the Board and the information in this announcement together with the information and assurances provided by the Manager to the Trustee, the Trustee is also satisfied that no Unitholders' approval is required for the Transaction.

Terms used herein shall bear the same respective meanings as set out in the Definitions section of this announcement.

As the Transaction may or may not proceed to Completion, Unitholders and prospective investors of Fortune REIT are advised to exercise caution when dealing in the Units.

A. THE SALE AND PURCHASE AGREEMENT

On 11 February 2015, the Trustee as Vendor and Tower Key Limited as Purchaser, an independent third party, entered into the Sale and Purchase Agreement pursuant to which the Vendor agreed to sell all the issued shares of Art Full, the legal and beneficial owner of the Property, to the Purchaser.

To the best knowledge, information and belief of the Manager, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are not a connected person (as defined under the REIT Code) and are third parties independent of Fortune REIT and its connected persons (as defined under the REIT Code).

Consideration

The Consideration payable by the Purchaser for the purchase of the Sale Shares shall be the Adjusted Asset Value (i.e. Disposal Amount of HK\$648,000,000 plus or minus Other Net Current Assets/Liabilities as at Completion), subject to Post-Completion Adjustments. There will be Post-Completion Adjustments if the Adjusted Asset Value as at the Completion Date as shown in the completion balance sheet prepared after Completion is higher or lower than the Adjusted Asset Value as shown in the pro forma completion balance sheet prepared before Completion, the Consideration under the Sale and Purchase Agreement shall be adjusted correspondingly. If the Adjusted Asset Value as at the Completion Date as shown in the completion balance sheet prepared after Completion is higher than the Adjusted Asset Value as shown in the pro forma completion balance sheet prepared before Completion, the Purchaser shall, within 5 business days of the agreement or final determination of the completion balance sheet prepared after Completion, pay the Vendor the difference between the two, and if the Adjusted Asset Value as at the Completion Date as shown in the completion balance sheet prepared after Completion is lower than the Adjusted Asset Value as shown in the pro forma completion balance sheet prepared before Completion, the Vendor shall, within 5 business days of the agreement or final determination of the completion balance sheet prepared after Completion, pay the Purchaser the difference between the two.

After Completion, completion balance sheet shall be prepared by the Vendor within one month and finalised and agreed between the Vendor and the Purchaser in accordance with the procedures set out in the Sale and Purchase Agreement, including the engagement of Deloitte Touche Tohmatsu, if necessary.

The Consideration has been arrived at on a willing buyer and a willing seller on an arm's length transaction basis, taking into account the Appraised Value.

The Manager will make a further announcement when the Consideration is finally determined according to the completion balance sheet prepared after Completion.

Disposal Amount

The Disposal Amount of HK\$648,000,000 represents a premium of approximately 47.9% to the Appraised Value of HK\$438,000,000. The Disposal Amount is arrived at by reference to the Appraised Value, which has already taken into account the non-current asset of Art Full, being the Property. The non-current liability of Art Full consists of deferred tax liabilities, which has been agreed by the Vendor and the Purchaser to be excluded from the calculation of the Consideration.

Terms of Payment

A cash deposit of HK\$64,800,000 (representing 10% of Disposal Amount), which will upon Completion represent part payment of the Consideration, was paid to the Vendor by the Purchaser upon signing of the Sale and Purchase Agreement. If Completion does not take place because the Vendor has failed to perform any one or more of its obligations under the Sale and Purchase Agreement, and this Sale and Purchase Agreement is rescinded or terminated by the Purchaser, the said deposit will be returned to the Purchaser without interest.

The balance of the Consideration before Post-Completion Adjustments less the cash deposit of HK\$64,800,000 shall be paid by the Purchaser in cash on the Completion Date. There will also be Post-Completion Adjustments as set out in the sub-paragraph headed "Consideration" in this paragraph, which will also be paid in cash.

Tenancies

The Property is sold subject to the existing Tenancies. The Vendor will indemnify the Purchaser in respect of the direct losses and reasonable costs which it has suffered and arising out of the change of use of part of the Shop 201 of the Property prior to Completion as a supermarket. The potential liabilities on the indemnity may or may not materialize and the Manager does not expect that the financial impact (if any) of this indemnity to be material to Fortune REIT.

Completion

Pursuant to the terms of the Sale and Purchase Agreement, the Transaction is scheduled to be completed on the Completion Date (being 2 April 2015 or such other date that the parties agree in writing).

The Manager will make a further announcement upon Completion having taken place.

Conditions Precedent

Completion is conditional upon the following conditions being satisfied or waived on or before the Completion Date:

- (a) there is (i) no change of any existing or (ii) no enactment / announcement of any new statute, code, rule, regulation, decision, or publicly announced policy of the Government of Hong Kong, the Securities and Futures Commission of Hong Kong, The Hong Kong Stock Exchange Limited or SGX-ST, in either case, between the signing of the Sale and Purchase Agreement and Completion which would have the effect of prohibiting the transactions contemplated under the Sale and Purchase Agreement or other documents contemplated in the Transaction including the sale and purchase of the Sale Shares or the ownership or operation of the Property or Art Full; and
- (b) the fundamental warranties remaining true and accurate in all respects and not misleading in any respect.

The Condition set out in paragraph (a) above cannot be waived but the Purchaser shall have the right to waive the Condition set out in paragraph (b) above.

B. THE PROPERTY

Art Full is the legal and beneficial owner of Nob Hill Square (盈暉薈), being the Property. The Property was part of Fortune REIT's initial portfolio when it was listed on SGX-ST in 2003. It is the commercial podium of 696-units residential development, Nob Hill (盈暉臺), 8 King Lai Path, Kwai Chung, New Territories, Hong Kong. The Property has a total gross rentable area of 91,779 square feet with shops on ground floor, first floor and second floor of such development, and the other part consists of 43 commercial car parking spaces on mezzanine floor together with external walls of the podium of the Estate.

The Appraised Value as of 31 December 2014 was HK\$438,000,000. The occupancy of the Property was 99.7% as at 31 December 2014. The total assets of Art Full represents 1.34% of the total assets of Fortune REIT as at 31 December 2014. The revenue of Art Full represents 1.73% of the total revenue of Fortune REIT for the year ended 31 December 2014.

C. DIVESTMENT FEE

Pursuant to the Trust Deed, the Manager is entitled to receive a divestment fee in cash of 0.5% of the Disposal Amount of the Property which shall be paid as soon as practicable after Completion, without adjustments. Upon receipt of the divestment fee, the Manager will apply the full amount of the said divestment fee towards an agency fee to be paid to an independent third party agent in connection with the Transaction.

No fee is payable to the Trustee in connection with the Transaction.

D. REASONS FOR, AND BENEFITS OF THE TRANSACTION

The Disposal Amount is higher than the Appraised Value, and thus the Transaction is accretive to the net asset value of Fortune REIT. Further, the Transaction will enable the Manager to streamline its operations and allocate resources more efficiently.

Upon Completion, a gain of approximately HK\$200 million (being the Disposal Amount after deducting therefrom the Expenses and the Appraised Value of the Property) is expected to result from the Transaction.

However, the Transaction will also lead to a slightly lower net property income and distribution beginning from the year ending 31 December 2015.

E. USE OF PROCEEDS

The Manager currently intends to use the proceeds, net of Expenses, for the repayment of existing loans (including a bank loan owing by Art Full to enable the release of the existing mortgage over the Property) at Completion.

F. FINANCIAL EFFECTS OF THE TRANSACTION ON FORTUNE REIT

The pro forma financial effects of the Transaction presented below are strictly for illustrative purpose only and do not reflect the actual financial position of Fortune REIT following the Completion of the Transaction, and do not constitute a profit forecast. They have been prepared based on the audited consolidated financial statements of Fortune REIT for the year ended 31 December 2014, assuming that Fortune REIT had disposed of the Sale Shares on the dates as indicated and the proceed, net of Expenses, was used for partial repayment of Fortune REIT's borrowings.

(i) Pro forma Distribution Per Unit for the financial year ended 31 December 2014

The pro forma distribution per Unit for the financial year ended 31 December 2014, as if Fortune REIT had disposed of the Sale Shares on 1 January 2014, will be decreased to 41.17 HK cents from 41.68 HK cents.

(ii) Pro forma Net Asset Value per Unit as at 31 December 2014

The pro forma net asset value per Unit as at 31 December 2014, as if Fortune REIT had disposed of the Sale Shares on 31 December 2014, will be increased from HK\$11.93 to HK\$12.04.

G. EXPECTED GEARING RATIO AND AGGREGATE LEVERAGE

Fortune REIT's gearing ratio and aggregate leverage was 29.4% according to the audited consolidated financial position of Fortune REIT as at 31 December 2014 (as disclosed in the results announcement of Fortune REIT for the year ended 31 December 2014). After taking into account the events which occurred after 31 December 2014 including (i) additional debt financing upon the completion of the acquisition of Laguna Plaza on 9 January 2015, which resulted in an increase in the gearing ratio and aggregate leverage and (ii) the partial repayment of Fortune REIT's borrowings by the net proceeds from the Transaction, which will result in a decrease in the gearing ratio and aggregate leverage, the gearing ratio and aggregate leverage is expected to be approximately 31.8% upon the completion of the Transaction.

H. IMPLICATIONS UNDER THE REIT CODE

To the best knowledge, information and belief of the Manager, having made all reasonable enquiries, the Purchaser including its ultimate beneficial owners are not a connected person (as defined under the REIT Code) and are third parties independent of Fortune REIT and its connected persons (as defined under the REIT Code). Therefore, the Transaction does not constitute a connected party transaction of Fortune REIT under the REIT Code.

The Disposal Amount represents approximately 1.84% of the total assets of Fortune REIT as at 31 December 2014 (as shown in the final results announcement of the Fortune REIT for the year ended 31 December 2014, less the distribution payable for the period from 1 July 2014 to 31 December 2014 and after taking into account of the acquisition of Laguna Plaza completed on 9 January 2015), which does not exceed 15% of the gross asset value of Fortune REIT as at 31 December 2014. Accordingly, the Manager is satisfied that the Transaction is not required to be approved by Unitholders pursuant to the REIT Code. Based on the information and confirmation given by the Manager to the Trustee, the Trustee is also satisfied that no Unitholders' approval is required for the Transaction.

I. IMPLICATIONS OF THE ACQUISITION UNDER THE SINGAPORE LISTING MANUAL

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

- (i) the net asset value of the assets to be disposed of, compared with Fortune REIT's net asset value;
- (ii) the net profits attributable to the assets disposed of, compared with Fortune REIT's net profits; and
- (iii) the aggregate value of the consideration received, compared with Fortune REIT's market capitalisation.

Based on the net asset value for the financial year ended 31 December 2014 of Fortune REIT and Art Full, the relative figure for the basis of comparison set out in sub-paragraph (i) above in relation to the same period is approximately 1.45%.

Based on the net property income for the financial year ended 31 December 2014 of Fortune REIT and Art Full, the relative figure for the basis of comparison set out in sub-paragraph (ii) above in relation to the same period is approximately 1.44%.

Based on the Disposal Amount and Fortune REIT's market capitalisation, based on the number of Units in issue multiplied by the volume weighted average price of HK\$8.5914 per Unit on the SGX-ST on 10 February 2015, being the market day preceding the signing of the Sale and Purchase Agreement, the relative figure for the basis of comparison set out in sub-paragraph (iii) above is approximately 4.02%.

Accordingly, the Transaction does not constitute a disclosable transaction under Chapter 10 of the Singapore Listing Manual.

J. OPINION OF THE BOARD

The Board (including the independent non-executive Directors) is satisfied that the Transaction, and the terms and conditions of the Sale and Purchase Agreement are at arm's length, on normal commercial terms, fair and reasonable and in the interests of Fortune REIT and the Unitholders as a whole. Further, the Board is satisfied that no Unitholders' approval is required for the Transaction.

K. OPINION OF THE TRUSTEE

Based and in sole reliance on the opinion of the Board and the information in this announcement, together with the information and assurances provided by the Manager to the Trustee, having taken into account its duties under the Trust Deed and the REIT Code, the Trustee is satisfied that: (i) the Transaction is consistent with Fortune REIT's investment policy and in compliance with the REIT Code and the Trust Deed; and (ii) no Unitholders' approval is required for the Transaction; and the Trustee has no objection to the Manager proceeding with the Transaction.

L. FURTHER ANNOUNCEMENTS

The Manager will make an announcement on Completion. The Manager will also make an announcement when the consideration for the Transaction is finally determined based on Adjusted Asset Value as at the Completion Date as shown in the completion balance sheet prepared after the Completion. Further announcement(s) will be made by the Manager as and when required under the REIT Code and the Singapore Listing Manual.

M. GENERAL

This announcement is made pursuant to paragraph 10.3 of the REIT Code and Chapter 7 of the Singapore Listing Manual.

DEFINITIONS

In this announcement, 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:

“Adjusted Asset Value”	the Disposal Amount plus/minus Other Net Current Assets/Liabilities.
“Appraised Value”	being HK\$438,000,000 as at the valuation date of 31 December 2014 as valued by Jones Lang LaSalle Limited, an independent property valuer. This being the most recent valuation report commissioned by the Manager and Trustee. The independent valuation was conducted using the direct comparisons approach and income capitalisation approach.
“Art Full”	Art Full Resources Limited, a wholly-owned subsidiary of Fortune REIT.
“Board”	the board of directors of the Manager.
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms under the Sale and Purchase Agreement.
“Completion Date”	2 April 2015 or such other date that the parties agree in writing on which Completion takes place.
“Consideration”	consideration payable by the Purchaser for the purchase of the Sale Shares being the Adjusted Asset Value (i.e. Disposal Amount of HK\$648,000,000 plus or minus Other Net Current Assets/Liabilities as at Completion), which is subject to Post-Completion Adjustments to be determined after Completion.
“Disposal Amount”	HK\$648,000,000, being the value attributed to the Property as agreed between the Vendor and the Purchaser.
“Estate”	the 696-units residential development, Nob Hill (盈暉臺), 8 King Lai Path, Kwai Chung, New Territories, Hong Kong.
“Expenses”	the expenses of approximately HK\$10,000,000 payable by the Vendor in connection with the Transaction which comprises divestment fee payable to the Manager, stamp duty and other legal and professional fees.

“Fortune REIT”	Fortune Real Estate Investment Trust, a real estate investment trust established under the laws of Singapore pursuant to the Trust Deed and the Units of which are listed on Singapore Exchange Securities Trading Limited and the Hong Kong Stock Exchange.
“HK\$”	Hong Kong dollars.
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Manager”	ARA Asset Management (Fortune) Limited, in its capacity as manager of Fortune REIT.
“Other Net Current Assets/Liabilities”	the net current assets of Art Full as at Completion or the net current liabilities of Art Full as at Completion.
“Post-Completion Adjustments”	adjustments on the Other Net Current Assets/Liabilities after Completion.
“Property”	Nob Hill Square (盈暉薈), which comprises of “all those 9,915 equal undivided 58,556 th parts or shares of and in all that piece of parcel of ground registered in the Land Registry as Kwai Chung Town Lot No. 474 and of and in the messuages erections and buildings thereon now known as “Nob Hill (盈暉臺)”, 8 King Lai Path, Kwai Chung, New Territories, Hong Kong together with the sole and exclusive right and privilege to hold use occupy and enjoy all those commercial units on ground floor, mezzanine floor, first floor, second floor and commercial car parking spaces Nos. C1 to C43 on mezzanine floor and external walls of the podium of the Estate”.
“Purchaser”	Tower Key Limited, a company incorporated in the British Virgin Islands and is primarily engaged in property investment.
“REIT Code”	the Code on Real Estate Investment Trusts published by the Securities and Futures Commission as amended, supplemented or otherwise modified for the time being.
“SGX-ST”	Singapore Exchange Securities Trading Limited.
“Sale and Purchase Agreement”	the agreement relating to the sale and purchase of the Sale Shares entered into between the Vendor and the Purchaser pursuant to which the Vendor agrees to sell all issued shares in Art Full, which is the legal and beneficial owner of the Property, to the Purchaser.

“Sale Shares”	6,000,002 issued shares of Art Full, being all the issued shares of Art Full as at the date of the Sale and Purchase Agreement, to be sold by the Vendor to the Purchaser at Completion.
“Singapore Listing Manual”	the Listing Manual of the SGX-ST.
“Tenancies”	all the existing tenancy agreements and licence agreements in respect of the Property entered into by Art Full before the date of the Sale and Purchase Agreement and including the tenancy agreements and licence agreements in respect of the Property to be entered into by Art Full after the date of the Sale and Purchase Agreement and before the Completion Date.
“Transaction”	the sale and purchase of the Sale Shares in accordance with the terms under the Sale and Purchase Agreement.
“Trust Deed”	the Trust Deed dated 4 July 2003 entered into between the Trustee and the Manager constituting Fortune REIT (as amended, varied and supplemented from time to time).
“Trustee”	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT.
“Unit(s)”	unit(s) in Fortune REIT.
“Unitholder(s)”	any person registered as holder of Unit(s).
“Vendor”	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT.

By order of the board of directors of
ARA Asset Management (Fortune) Limited
(in its capacity as manager of Fortune Real Estate Investment
Trust)

CHIU Yu, Justina
Chief Executive Officer

Singapore, Hong Kong, 11 February 2015

The Directors of the Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Mr. Ip Tak Chuen, Edmond, Ms. Yeung, Eirene and Mr. Ang Meng Huat, Anthony as Non-executive Directors; Ms. Chiu Yu, Justina as Executive Director; Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David as Independent Non-executive Directors; and Mr. Ma Lai Chee, Gerald as Alternate Director to Mr. Ip Tak Chuen, Edmond.