



**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

Singapore Exchange Securities Trading Limited (the "SGX-ST") takes no responsibility for the accuracy of any statements or opinions made, or reports contained, in this Circular. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

Approval in-principle has been obtained from the SGX-ST for the Equity Fund Raising (as defined herein) and for the listing and quotation of the new units in Fortune Real Estate Investment Trust (the "New Units") to be issued for the purpose of the Equity Fund Raising and the units in Fortune Real Estate Investment Trust ("Fortune REIT") to be issued to the Manager in payment of its Acquisition Fee (as defined herein) on the Main Board of the SGX-ST. The SGX-ST's in-principle approval is not an indication of the merits of the Equity Fund Raising, the Acquisitions (as defined herein), the New Units, Fortune REIT and the waivers granted by the SGX-ST as described in paragraph 4.2 of the letter to Unitholders set out in this Circular.

If you have sold or transferred all your units in Fortune REIT ("Units"), you should immediately forward this Circular, together with the Notice of Extraordinary General Meeting and the accompanying Proxy Form in this Circular, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular is not for distribution, directly or indirectly, in or into the United States. It is not an offer of securities for sale into the United States. The Units may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act of 1933) unless they are registered or exempt from registration. There will be no public offer of securities in the United States.



**Fortune Real Estate Investment Trust**

(Constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003)

Managed By

**ARA ASSET MANAGEMENT (SINGAPORE) LIMITED**



**CIRCULAR TO UNITHOLDERS IN RELATION TO:**

- (1) THE PROPOSED ACQUISITION OF THE CITY ONE SHATIN PROPERTY (AS DEFINED HEREIN);
- (2) THE PROPOSED ACQUISITION OF THE WALDORF GARDEN PROPERTY (AS DEFINED HEREIN);
- (3) THE PROPOSED ACQUISITION OF THE TSING YI SQUARE PROPERTY (AS DEFINED HEREIN);
- (4) THE PROPOSED ACQUISITION OF THE CENTRE DE LAGUNA PROPERTY (AS DEFINED HEREIN);
- (5) THE PROPOSED ACQUISITION OF THE LIDO GARDEN PROPERTY (AS DEFINED HEREIN);
- (6) THE PROPOSED ACQUISITION OF THE RHINE GARDEN PROPERTY (AS DEFINED HEREIN);
- (7) THE PROPOSED ISSUE OF NEW UNITS TO PARTLY FINANCE THE ACQUISITIONS AND A CONSEQUENT ADJUSTMENT TO THE DISTRIBUTION PERIOD;
- (8) THE PROPOSED PLACEMENT OF NEW UNITS TO FOCUS EAGLE INVESTMENTS LIMITED, A SUBSTANTIAL UNITHOLDER (AS DEFINED HEREIN), AS PART OF THE EQUITY FUND RAISING;
- (9) SUPPLEMENTING THE TRUST DEED (AS DEFINED HEREIN) TO PERMIT THE MANAGER (AS DEFINED HEREIN) TO RECEIVE PAYMENT FOR ITS BASE FEE AND ACQUISITION FEE IN UNITS; AND
- (10) SUPPLEMENTING THE TRUST DEED TO PERMIT THE MANAGER TO ELECT TO ISSUE CONSIDERATION UNITS (AS DEFINED HEREIN) AT AN ISSUE PRICE DETERMINED IN ACCORDANCE WITH CLAUSE 5.2.6 OF THE TRUST DEED FOR THE PURPOSE OF FINANCING FUTURE ACQUISITIONS OF PROPERTIES.

Independent Financial Adviser to the Independent Directors of  
the Manager and the Trustee



Financial Adviser for the Equity Fund Raising



Joint Bookrunners and Underwriters for the Equity Fund Raising



## **IMPORTANT DATES AND TIMES**

Last date and time for lodgement of Proxy Forms:

**30 May 2005 at 2.30 p.m.**

Date and time of Extraordinary General Meeting:

**1 June 2005 at 2.30 p.m.**

Place of Extraordinary General Meeting:

**One Raffles Boulevard  
Meeting Room 308, Level 3  
Suntec Singapore International  
Convention & Exhibition Centre  
Singapore 039593**



The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Meanings of defined terms may be found in the Glossary on pages 64 to 72 of this Circular.

## OVERVIEW

### THE ACQUISITIONS

Fortune REIT proposes to acquire up to six properties located in Hong Kong. This is in line with the key objectives of ARA Asset Management (Singapore) Limited (the "Manager") which is to deliver stable distributions to Unitholders and to achieve long-term growth in the NAV per Unit by ensuring that Fortune REIT continues to own a range of retail properties in Hong Kong without over-exposing Fortune REIT's property portfolio to any particular sub-sector, building or tenant.

Each of the Properties was appraised by the two Independent Valuers, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million. Assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with the completion of all of the Acquisitions, the total estimated costs of the Properties, comprising the Aggregate Purchase Consideration<sup>1</sup>, stamp duty, the acquisition fees payable to the Manager as well as other estimated fees and expenses (including professional fees, the front end fee payable under the Facilities and expenses) incurred or to be incurred by Fortune REIT in connection with the Acquisitions, are estimated to be approximately HK\$3,568.5 million.

On completion of all six Acquisitions, Fortune REIT's:

- asset base would increase by almost 90% to HK\$7.8 billion<sup>2</sup>
- property portfolio would increase from five assets to 11 assets
- Gross Rentable Area ("GRA") would increase from 1.0 million sq ft to 1.7 million sq ft<sup>3</sup>

Notes:

1. As two of the Properties, namely the City One Shatin Property and the Waldorf Garden Property, will be acquired through the acquisition of the entire issued share capital of Mightypattern Limited (the company which indirectly owns the City One Shatin Property) and Waldorf Realty Limited (the company which directly owns the Waldorf Garden Property), the Aggregate Purchase Consideration will be subject to adjustment for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited respectively.
2. Based on valuations as at 31 January 2005.
3. Based on GRA of the Existing Properties and the Properties as at 31 December 2004.

### THE EQUITY FUND RAISING

The Manager proposes to issue such number of New Units for placement by the Joint Bookrunners and Underwriters to existing Unitholders and new investors at a price to be determined between the Manager and the Joint Bookrunners and Underwriters so as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds to partly finance the Acquisitions. The balance of the costs of the Acquisitions is intended to be financed through secured facilities aggregating HK\$2,650.0 million which Fortune REIT is expected to obtain for the purposes of the Acquisitions, the refinancing of Fortune REIT's existing debt and for general working capital.

### PREFERENTIAL 1-FOR-10 OFFERING TO EXISTING UNITHOLDERS

As part of the Equity Fund Raising, Singapore Registered Unitholders will have the opportunity to participate in a preferential offering of approximately 47.7 million<sup>1</sup> New Units on a non-renounceable basis of one New Unit for every 10 of the existing Units held on the Preferential Offering Books Closure Date (fractions of a Unit to be disregarded and subject to the rounding mechanism described in this Circular).

Note:

1. This figure does not take into account the additional Units which will, where necessary, be allocated to Singapore Registered Unitholders to enable them to obtain, after acceptance of their provisional allocations of New Units under the Preferential Offering, aggregate unitholdings in integral multiples of 1,000 Units. See paragraph 4 of the Letter to Unitholders for more details.

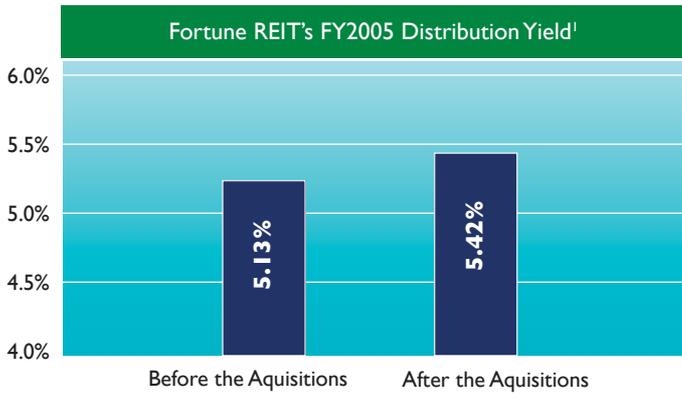


# BENEFITS TO UNITHOLDERS

The Manager believes that the Acquisitions will bring certain benefits to Unitholders, some of which are listed below.

## Yield accretion

The Manager believes that the Acquisitions will improve the Distribution per Unit enjoyed by Unitholders.



Note:

1. Assuming that (i) Unitholders' approvals are obtained for all the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions, (ii) the Manager's Base Fee and Acquisition Fee for the Properties are paid in Units, (iii) an Issue Price of HK\$6.10 per New Unit, (iv) 325.6 million New Units are issued pursuant to the Equity Fund Raising, and (v) the additional borrowings to be incurred by Fortune REIT to, inter alia, partly fund the Acquisitions increases Fortune REIT's Gearing to 31.5% based on valuation as at 31 December 2004. See paragraph 2.2.1 of the Letter to Unitholders for details and assumptions relating to the forecast distribution yield of Fortune REIT.

## Acquisitions in line with Manager's objectives and acquisition growth strategy

In view of the Properties' high occupancy rates and diversified tenant mix as a whole, the Manager believes that the Acquisitions are in line with its objectives and acquisition growth strategy.

## Positive retail market trend in Hong Kong

The current state of Hong Kong's overall economy has been boosted by various factors, such as the growing number of tourist arrivals from mainland China, closer economic integration with China, reduced unemployment rates and recovering domestic consumer confidence. The Manager believes that there is potential for future upward adjustment of rental rates for the Properties if this improvement continues. See Appendix 7 of this Circular for the Retail Market Overview by the Independent Property Consultant.

## Competitive strengths of Properties

The Manager believes that the Properties enjoy several key competitive strengths including large population catchment areas, accessibility to public transportation, high occupancy rates and diversified tenant bases for the Properties as a whole. As at 31 December 2004, the combined average occupancy rate of the Properties was 96.7%.

## Geographical diversification

The Acquisitions will allow Fortune REIT to have an asset base that covers a wider area of Hong Kong, and accordingly, will be less dependent on any micro property market in Hong Kong.

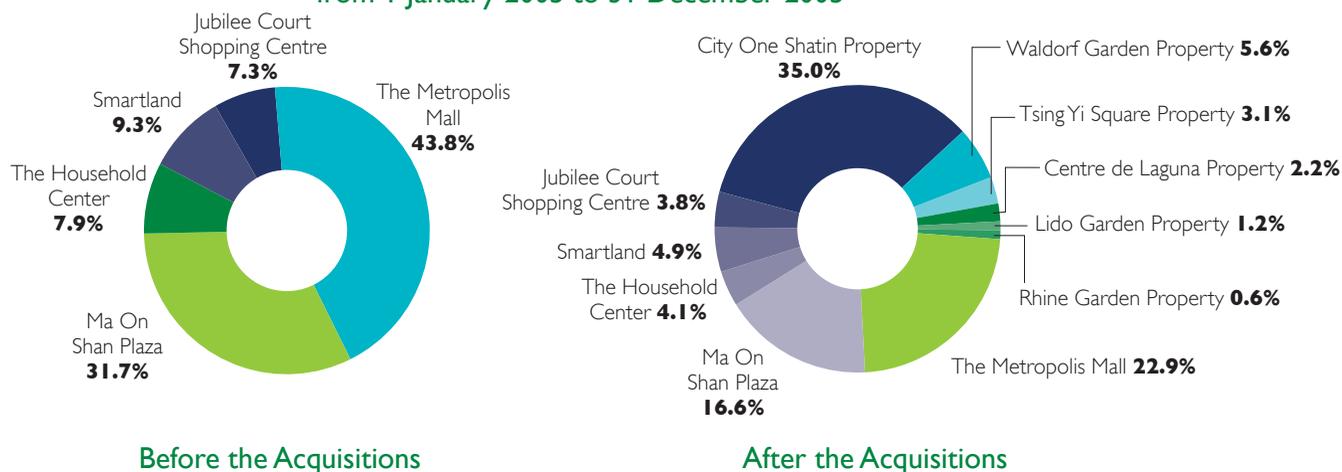


# BENEFITS TO UNITHOLDERS

## Income Diversification

The Acquisitions are also expected to reduce Fortune REIT's reliance on any one single property in its portfolio. Following the Acquisitions, the maximum contribution by any property to Fortune REIT's Net Property Income ("NPI") for the financial year ending 31 December 2005 is expected to decrease to 35.0% from the maximum of 43.8% prior to the Acquisitions, while contributions to Base Rental Income ("BRI") from the top 10 tenants of Fortune REIT's portfolio are expected to be reduced to 26.9% from 43.7% for the financial year ending 31 December 2005.

**Forecast NPI contribution for the financial year from 1 January 2005 to 31 December 2005<sup>1</sup>**



Note:  
 1. Assuming that Unitholders' approvals are obtained for all the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions, and includes car parking income and Performance Fee payable to the Manager. The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual NPI of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in this Circular. As such, the profit forecast should be regarded as an illustration of the NPI of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual NPI for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their NPI forecast. Accordingly, the actual yield may also be different from the forecast yield. See Paragraph 2.2.5 of the Letter to Unitholders.

## Potential increase in liquidity of Units and inclusion in major equity indices

The Acquisitions will increase Fortune REIT's asset base and market capitalisation. The issue of New Units under the Equity Fund Raising may increase the number of Units in the free float and facilitate improvement in the trading liquidity of the Units on the SGX-ST. The Manager believes such factors may increase the likelihood of Fortune REIT being included in certain major equity indices.

## Asset enhancement opportunities at the City One Shatin Property

Based on its asset enhancement study, Chesterton Petty Ltd has identified the following opportunities to enhance the value of the City One Shatin Property:

- Strategic district opportunities
- Design and layout opportunities
- Trade and tenant mix opportunities

See Appendix 10 of this Circular for the summary review of the asset enhancement opportunities for the City One Shatin Property.



# LOCATION OF THE PROPERTIES



## KEY PROPERTY DETAILS

	GRA <sup>1</sup> (sq ft)	Occupancy Rate <sup>1</sup> (%)	Forecast Average Occupancy Rate <sup>2</sup> (%)	Property Yield <sup>3</sup> (%)
City One Shatin Property	414,469	95.4	96.0	5.6 <sup>4</sup>
Waldorf Garden Property	80,842	100.0	100.0	5.7 <sup>4</sup>
Tsing Yi Square Property	78,836	97.2	98.0	5.6
Centre de Laguna Property	43,000	100.0	100.0	6.6
Lido Garden Property	9,836	100.0	100.0	6.5
Rhine Garden Property	14,604	100.0	100.0	6.0
<b>Total</b>	<b>641,587</b>	<b>96.7</b>	<b>97.2</b>	<b>5.7</b>

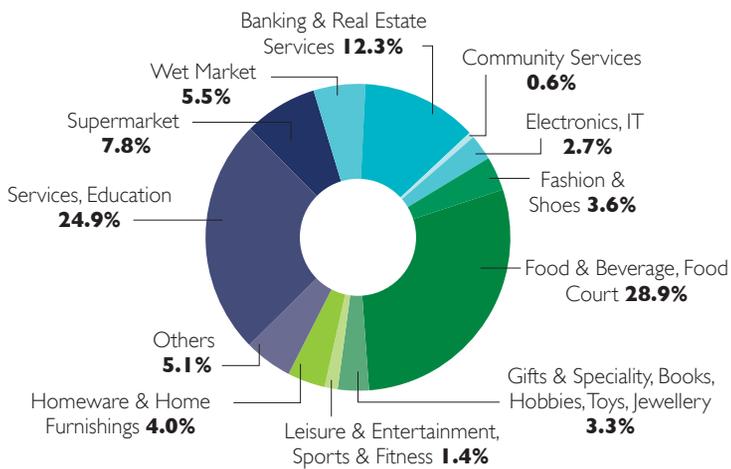
Notes:

1. As at 31 December 2004.
2. The forecast average occupancy rates take into account forecast vacancy periods between leases. The average occupancy rate for each Property for the financial year ending 31 December 2005 is derived by dividing the sum of the occupancy rates as at the end of each month for the relevant Property by the number of months in the relevant year. Please refer to Appendix 2 of this Circular.
3. Property yield is typically calculated as the NPI of a property over its valuation, except that where the property is first acquired, property yield will be based on the purchase consideration of the property. For the Properties, the property yield is based on forecast NPI for the financial year ending 31 December 2005 divided by the purchase consideration.
4. Property yields for the City One Shatin Property and the Waldorf Garden Property are estimations as their Purchase Consideration will be adjusted to take into account the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited on Completion



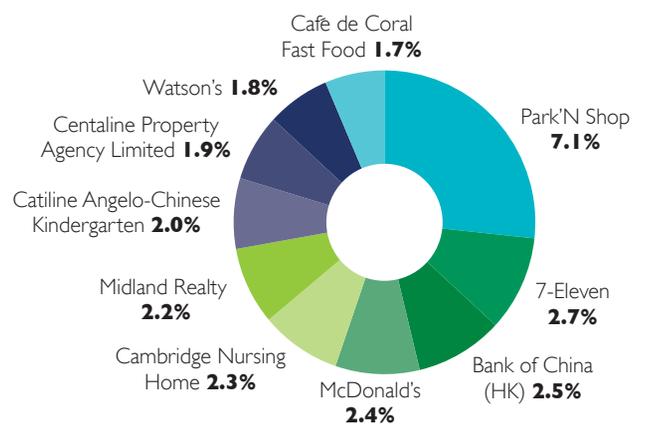


### Trade Mix of the Properties by BRI<sup>1</sup>



Note: 1. As at 31 December 2004

### Top 10 Tenants of the Properties by BRI<sup>1</sup>



## CITY ONE SHATIN PROPERTY

### Highlights:

- Located in Shatin
- Part of the 10,642-unit City One Shatin residential development
- Close proximity to Ma On Shan Rail's City One Station, and near Shatin Station on the East Rail of KCRC





## WALDORF GARDEN PROPERTY

### Highlights:

- Located in the heart of Tuen Mun district
- Part of five-tower residential block, Waldorf Garden
- Easily accessible by public transport



## TSING YI SQUARE PROPERTY

### Highlights:

- Closer proximity to many public facilities
- Part of 1,520-unit residential development, Tsing Yi Garden
- Close to Tsing Yi MTR station



## CENTRE DE LAGUNA PROPERTY

### Highlights:

- Located in densely populated Kwun Tong district
- Part of 8,072-unit residential development, Laguna City
- Close to Lam Tin MTR station



## LIDO GARDEN PROPERTY

### Highlights:

- Located in Sham Tseng
- Comprises 12 shop units on a portion on the Ground Floor of the commercial/residential development, Lido Garden
- Easily accessible via buses, public light buses and taxis



## RHINE GARDEN PROPERTY

### Highlights:

- Part of the Rhine Terrace residential development
- Near Lido Garden Property
- Easily accessible via buses, public light buses and taxis

## TABLE OF CONTENTS

	Page
<b>CORPORATE INFORMATION</b> .....	ii
<b>OVERVIEW OF THE ACQUISITIONS, BENEFITS TO UNITHOLDERS AND SUMMARY OF APPROVALS SOUGHT</b> .....	1
<b>INDICATIVE TIMETABLE</b> .....	9
<b>IMPORTANT NOTICE</b> .....	10
<b>LETTER TO UNITHOLDERS</b>	
1. Summary of Approvals Required .....	11
2. The Acquisitions and the Rationale for the Acquisitions .....	16
3. Details of the Acquisitions .....	29
4. Details of the Equity Fund Raising .....	54
5. Placement to Focus Eagle .....	57
6. Proposed Fee Supplement to the Trust Deed .....	59
7. Proposed Issue Price Supplement to the Trust Deed .....	59
8. Recommendations .....	60
9. Extraordinary General Meeting .....	61
10. Prohibition on Voting .....	61
11. Action to be Taken by Unitholders .....	62
12. Directors' Responsibility Statements .....	62
13. Consents .....	62
14. Documents on Display .....	62
<b>GLOSSARY</b> .....	64
<b>APPENDICES</b>	
Appendix 1 : The Properties and the Existing Properties .....	73
Appendix 2 : Profit Forecast .....	109
Appendix 3 : DTCF's Report on the Profit Forecast .....	120
Appendix 4 : Independent Accountants' Report on the Profit Forecast .....	122
Appendix 5 : Chesterton Summary Valuation Report .....	124
Appendix 6 : Vigers Appraisal Summary Valuation Report .....	136
Appendix 7 : Retail Market Overview by the Independent Property Consultant .....	148
Appendix 8 : Existing Interested Person Transactions .....	162
Appendix 9 : Related Tenancy and Licence Agreements .....	163
Appendix 10 : Chesterton Individual Property Summary Report and Chesterton Summary City One Shatin Property Asset Enhancement Report .....	165
Appendix 11 : IFA Letter .....	183
Appendix 12 : Proposed Supplements to the Trust Deed .....	200
<b>NOTICE OF EXTRAORDINARY GENERAL MEETING</b> .....	202
<b>PROXY FORM</b>	

## CORPORATE INFORMATION

<b>Directors of ARA Asset Management (Singapore) Limited (the manager of Fortune Real Estate Investment Trust (the “Manager”))</b>	Mr Chiu Justin Kwok Hung ( <i>Chairman</i> ) Mr Lim Hwee Chiang ( <i>Chief Executive Officer</i> ) Mr Ip Tak Chuen Edmond Ms Yeung Eirene Mr Lim Lee Meng ( <i>Independent Director</i> ) Mr Cheng Moses Mo Chi ( <i>Independent Director</i> ) Mrs Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei) ( <i>Independent Director</i> )
<b>Registered office of ARA Asset Management (Singapore) Limited</b>	9 Temasek Boulevard #09-01 Suntec Tower 2 Singapore 038989
<b>Trustee of Fortune Real Estate Investment Trust (the “Trustee”)</b>	HSBC Institutional Trust Services (Singapore) Limited 21 Collyer Quay #14-01 HSBC Building Singapore 049320
<b>Unit Registrar and Unit Transfer Office</b>	Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
<b>Independent Financial Adviser to the Independent Directors of the Manager and the Trustee</b>	KPMG Corporate Finance Pte Ltd 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581
<b>Financial Adviser for the Equity Fund Raising</b>	DBS Bank Ltd 6 Shenton Way DBS Building Tower One Singapore 068809
<b>Joint Bookrunners and Underwriters for the Equity Fund Raising</b>	DBS Bank Ltd 6 Shenton Way DBS Building Tower One Singapore 068809  The Hongkong and Shanghai Banking Corporation Limited 21 Collyer Quay #03-01 HSBC Building Singapore 049320  J.P. Morgan (S.E.A.) Limited 168 Robinson Road 17th Floor, Capital Tower Singapore 068912  UBS AG, acting through its business group, UBS Investment Bank 5 Temasek Boulevard #18-00 Suntec Tower Five Singapore 038985

<b>Legal Adviser for the Equity Fund Raising and to the Manager</b>	Allen & Gledhill One Marina Boulevard #28-00 Singapore 018989
<b>Legal Adviser to the Manager and the Trustee as to Hong Kong law</b>	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong
<b>Legal Adviser to the Financial Adviser and Joint Bookrunners and Underwriters</b>	Linklaters Allen & Gledhill Pte Ltd One Marina Boulevard #28-00 Singapore 018989
<b>Legal Adviser to the Trustee as to Singapore law</b>	Shook Lin & Bok 1 Robinson Road #18-00 AIA Tower Singapore 048542
<b>Independent Accountants</b>	Deloitte & Touche, Certified Public Accountants 6 Shenton Way #32-00 DBS Building Tower Two Singapore 068809
<b>Reviewer of the Profit Forecast</b>	Deloitte & Touche Corporate Finance Pte Ltd 6 Shenton Way #32-00 DBS Building Tower Two Singapore 068809
<b>Independent Tax Consultant for the Acquisitions and the Equity Fund Raising</b>	KPMG Tax Services Pte Ltd 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581
<b>Independent Valuers</b>	Chesterton Petty Ltd 16th Floor CITIC Tower 1 Tim Mei Avenue Hong Kong  Vigers Appraisal & Consulting Limited 10/F The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
<b>Building Surveyor</b>	Vigers Building Consultancy Ltd 10/F The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
<b>Independent Property Consultant for Retail Market Overview</b>	Savills (Hong Kong) Limited 23rd Floor Two Exchange Square Central Hong Kong

*This page has been intentionally left blank.*

## OVERVIEW OF THE ACQUISITIONS, BENEFITS TO UNITHOLDERS AND SUMMARY OF APPROVALS SOUGHT

*The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Meanings of defined terms may be found in the Glossary on pages 64 to 72 of this Circular.*

### OVERVIEW OF THE ACQUISITIONS

#### The Properties

Fortune Real Estate Investment Trust (“**Fortune REIT**”) proposes to acquire up to a total of six properties located in Hong Kong (collectively, the “**Properties**” and each a “**Property**”) from Fortune Port Group Limited (“**Fortune Port**”). Certain details of each of these Properties are as follows:

- **The City One Shatin Property** comprising the following commercial portion and car parking spaces at City One Shatin, Shatin, New Territories, Hong Kong:
  - the free standing commercial podium known as Ngan Shing Commercial Centre (Commercial Block A) on the Ground Floor, 4th Floor and the Roof;
  - the free standing commercial podium known as City One Plaza (Commercial Block B) on the Ground Floor, 1st Floor and portion of the Roof, Roof Garden, Centre Garden and kiosks thereof;
  - the wet market and kindergarten below residential tower blocks 34–36 on the Ground Floor only;
  - various single shops and non-domestic units dispersed throughout the development on the Ground Floor of 12 individual residential tower blocks; and
  - 986 car parking spaces within the development of which 314 car parking spaces are located on the 1st Floor of Commercial Block A, 671 car parking spaces on the 2nd and 3rd Floors of City One Plaza (Commercial Block B) and a car parking space on the 1st Floor of the residential tower blocks 34–36 of the development;
- **The Waldorf Garden Property** comprising the following shops and car parking spaces located at No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong:
  - a retail floor on Level 3 of a 4-storey commercial/parking/recreational podium of a residential development known as “Waldorf Garden”;
  - 73 car parking spaces with two car parking spaces located on Level 1 of the podium, 67 car parking spaces on Level 2 and four lorry parking spaces on Level 1;
  - Bicycle Parking Area on Level 1; and
  - Bicycle Parking Area on Level 2;
- **The Tsing Yi Square Property** comprising 48 shops on the Ground Floor, 29 shops on the 1st Floor and 27 car parking spaces on the basement of a commercial/residential development known as “Tsing Yi Garden” located at No. 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong;
- **The Centre de Laguna Property** comprising the commercial area on the Ground Floor of the commercial development known as “Centre de Laguna” and the kindergarten of Blocks 32 to 38 of Laguna City located at the junction of Cha Kwo Ling Road and Sin Fat Road, Kowloon, Hong Kong;
- **The Lido Garden Property** comprising 12 shop units of a portion on the Ground Floor at the northern fringe of the side boundary of the commercial/residential development called “Lido Garden” located at No. 41–63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong; and

- **The Rhine Garden Property** comprising various retail portions on the Ground Floor of the 3-storey podium of a commercial/residential development with ancillary car parking and recreational facilities known as “Rhine Garden” located at No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong.

The following table sets out the Gross Rentable Area and the occupancy rate of each of the Properties as at 31 December 2004:

<b>Property</b>	<b>Gross Rentable Area (sq ft)</b>	<b>Occupancy rate (%)</b>
The City One Shatin Property	414,469	95.4
The Waldorf Garden Property	80,842	100.0
The Tsing Yi Square Property	78,836	97.2
The Centre de Laguna Property	43,000	100.0
The Lido Garden Property	9,836	100.0
The Rhine Garden Property	14,604	100.0
Total/Average*	641,587	96.7

\* Weighted average by Gross Rentable Area

### **Sale and Purchase Agreements**

In conjunction with the acquisitions of the Properties, the Trustee (as trustee of Fortune REIT) has entered into separate conditional sale and purchase agreements (the “**Sale and Purchase Agreements**”) each dated 23 March 2005 with Fortune Port. Certain details of the Sale and Purchase Agreements are set out below:

- **The City One Shatin Property**

Under the Sale and Purchase Agreement relating to the City One Shatin Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the City One Shatin Property through the acquisition of the entire issued share capital of Mightypattern Limited, the company which indirectly owns the City One Shatin Property. The purchase consideration for Mightypattern Limited is the sum of HK\$2,559.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Mightypattern Limited. Any deferred tax liability or assets of Mightypattern Limited and its subsidiaries will not be taken into account in such calculation. The City One Shatin Property was valued by two independent property valuers, Chesterton Petty Ltd (“**Chesterton**”) and Vigers Appraisal & Consulting Limited (“**Vigers Appraisal**”), both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$2,680.0 million.

- **The Waldorf Garden Property**

Under the Sale and Purchase Agreement relating to the Waldorf Garden Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Waldorf Garden Property through the acquisition of the entire issued share capital of Waldorf Realty Limited, the company which directly owns the Waldorf Garden Property. The purchase consideration for Waldorf Realty Limited is the sum of HK\$400.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Waldorf Realty Limited. Any deferred tax liability or assets of Waldorf Realty Limited and its subsidiaries will not be taken into account in such calculation. The Waldorf Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$430.0 million.

- **The Tsing Yi Square Property**

Under the Sale and Purchase Agreement relating to the Tsing Yi Square Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Tsing Yi Square Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands, whose primary purpose will be to acquire and own the Tsing Yi Square Property. The purchase consideration for the Tsing Yi Square Property is HK\$230.0 million. The Tsing Yi Square Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005 is HK\$250.0 million.

- **The Centre de Laguna Property**

Under the Sale and Purchase Agreement relating to the Centre de Laguna Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Centre de Laguna Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands, whose primary purpose will be to acquire and own the Centre de Laguna Property. The purchase consideration for the Centre de Laguna Property is HK\$135.0 million. The Centre de Laguna Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$145.0 million.

- **The Lido Garden Property**

Under the Sale and Purchase Agreement relating to the Lido Garden Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Lido Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands, whose primary purpose will be to acquire and own the Lido Garden Property. The purchase consideration for the Lido Garden Property is HK\$75.0 million. The Lido Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005 is HK\$80.0 million.

- **The Rhine Garden Property**

Under the Sale and Purchase Agreement relating to the Rhine Garden Property, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Rhine Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands, whose primary purpose will be to acquire and own the Rhine Garden Property. The purchase consideration for the Rhine Garden Property is HK\$40.0 million. The Rhine Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$43.0 million.

Each of the acquisitions of the City One Shatin Property, the Waldorf Garden Property, the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property by Fortune REIT is independent of and not conditional upon the acquisition of any other Property. Unless the relevant approvals of Unitholders have been obtained, Fortune REIT is not obliged to buy any or all of the Properties.

### **Aggregate Purchase Consideration**

The aggregate purchase consideration of the Properties is HK\$3,439.0 million (the “**Aggregate Purchase Consideration**”), before adjustment for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited (together, the “**Target Companies**”).

In respect of two of the Properties, namely the City One Shatin Property (which will be acquired through the acquisition of the entire issued share capital of Mightypattern Limited, the company which indirectly owns the City One Shatin Property) and the Waldorf Garden Property (which will be acquired through the acquisition of the entire issued share capital of Waldorf Realty Limited, the company which directly owns the Waldorf Garden Property), their respective purchase considerations are subject to adjustments (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited respectively.

Each of the Properties was appraised by two independent valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million.

### **Interested Person Transaction and Interested Party Transaction**

Fortune Port, which is incorporated in the British Virgin Islands, is a wholly-owned subsidiary of ARA Asset Management Limited, a company incorporated in Bermuda. As the Manager is also a wholly-owned subsidiary of ARA Asset Management Limited, the Manager and Fortune Port are related corporations. Therefore, each of the acquisitions of the Properties (collectively, the “**Acquisitions**”) will constitute an “interested person transaction” under Chapter 9 of the Listing Manual of the SGX-ST (the “**Listing Manual**”) as well as an “interested party transaction” under paragraph 6 of the Property Funds Guidelines in Appendix 2 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore (the “**Property Funds Guidelines**”). (See paragraphs 3.15.2 and 3.15.3 of the Letter to Unitholders for further details).

### **Costs of the Acquisitions**

The total estimated costs of the Acquisitions, on the assumption that Unitholders’ approvals are obtained for all the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions, amount to approximately HK\$3,568.5 million, comprising:

- the Aggregate Purchase Consideration of HK\$3,439.0 million which, in the case of the City One Shatin Property and the Waldorf Garden Property, is subject to adjustment for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited respectively;
- the stamp duty of HK\$23.9 million;
- the Acquisition Fee of approximately HK\$34.4 million (being 1.0% of the Aggregate Purchase Consideration) payable to the Manager pursuant to the trust deed constituting Fortune REIT (the “**Trust Deed**”); and
- other estimated fees and expenses (including professional fees, the front-end fee payable under the Facilities and expenses) of approximately HK\$71.2 million incurred or to be incurred by Fortune REIT in connection with the Acquisitions.

Subject to and contingent upon the passing of the resolution authorising the Manager to receive payment of its Acquisition Fee in Units under the Trust Deed, the Acquisition Fee of approximately HK\$34.4 million shall be payable to the Manager in Units in accordance with the proposed supplement to the Trust Deed set out in paragraph 6.2 of the Letter to Unitholders.

### **Method of Financing**

The Manager proposes to issue such number of New Units for placement by DBS Bank Ltd (“**DBS Bank**”), The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan (S.E.A.) Limited and UBS AG, acting through its business group UBS Investment Bank (together, the “**Joint Bookrunners and Underwriters**”) to existing holders of Units (“**Unitholders**”) and new investors at a price per New Unit to be determined between the Manager and the Joint Bookrunners and Underwriters closer to the commencement of the Equity Fund Raising (the “**Issue Price**”) so as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds (the “**Equity Fund Raising**”) to partly finance the Acquisitions. The Equity Fund Raising includes a placement of New Units to Focus Eagle Investments Limited (“**Focus Eagle**”). The balance of the costs of the Acquisitions is intended to be financed through secured facilities aggregating HK\$2,650.0 million (the “**Facilities**”) which Fortune REIT is expected to obtain for the purposes of the Acquisitions, the refinancing of Fortune REIT’s existing debt and general working capital.

The Manager’s analysis of the Acquisitions in this Circular is done on the basis that Fortune REIT will proceed with the completion of all of the Acquisitions. The Acquisitions are not inter-conditional. The analysis (including the analysis on the forecast distribution per Unit (“**DPU**”) and the distribution yield)

will vary accordingly if Unitholders approve only some, but not all, of the Acquisitions. Based on the Manager's current analysis, Unitholders will stand to enjoy several key benefits if Fortune REIT proceeds with the Acquisitions. The Manager therefore requests and recommends that Unitholders extend the requisite approvals in order that all six Acquisitions may proceed.

(See paragraphs 2, 3 and 4 of the Letter to Unitholders for further details about the Acquisitions, the Facilities and the Equity Fund Raising.)

## **BENEFITS TO UNITHOLDERS**

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

### **Yield Accretion**

The Manager believes that the Acquisitions will improve the DPU enjoyed by Unitholders. Assuming the successful completion of the Acquisitions by end June 2005 and that Fortune REIT achieves a forecast Gearing (as defined herein) of 31.5% immediately following completion of the Acquisitions, Fortune REIT's forecast DPU for the financial year ending 31 December 2005 is between 32.59 and 34.71 HK cents based on an Issue Price range of HK\$5.90 to HK\$6.90 respectively (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions). This range represents a DPU accretion of between 4.09% and 10.86% over the forecast DPU of 31.31 HK cents based on Fortune REIT's existing property portfolio for the same period. Please see paragraph 2.2.1 of the Letter to Unitholders for further details and assumptions relating to the forecast DPU.

### **The Acquisitions are in line with the Manager's Objectives and Acquisition Growth Strategy**

The Manager's key objectives for Fortune REIT are to deliver stable distributions to Unitholders and to achieve long-term growth in net asset value ("**NAV**") per Unit. The Manager intends to accomplish these objectives by ensuring that Fortune REIT continues to own a range of quality retail properties without over-exposing Fortune REIT's property portfolio to any particular sub-sector, building or tenant.

In view of the high occupancy rate and the diversified tenant mix of the Properties (see paragraphs 2.2.4(ii) and (iii) of the Letter to Unitholders), the Manager believes that the Acquisitions are in line with its objectives.

The Acquisitions are also in line with the Manager's acquisition growth strategy and the Properties are expected to be significant and valuable additions to Fortune REIT's current property portfolio comprising The Metropolis Mall, Ma On Shan Plaza, The Household Center, Smartland, and Jubilee Court Shopping Centre (collectively, the "**Existing Properties**").

### **Retail Market Trend in Hong Kong**

The Manager has commissioned Savills (Hong Kong) Limited (the "**Independent Property Consultant**") to prepare a report dated 10 May 2005 on the Hong Kong retail property market (the "**Retail Market Overview**").

According to the Retail Market Overview, the current state of Hong Kong's overall economy has been boosted by various factors, such as the growing number of mainland China tourist arrivals, closer economic integration with China, reduced unemployment rates and recovering domestic consumer confidence.

The improving economy has helped the Hong Kong retail market to rebound strongly since August 2003. Total retail sales values and volumes have recorded positive increases on a year on year basis for 17 consecutive months since August 2003.

Considering the robust Hong Kong economy and retail market, the Manager believes that there is potential for future upward adjustment of rental rates for the Properties if the improvement continues.

(See **Appendix 7** for the Retail Market Overview by the Independent Property Consultant.)

## **Competitive Strengths**

The Manager believes that the Properties enjoy several key competitive strengths including large catchment areas with median monthly household incomes that are at least similar to, if not higher than, Hong Kong's overall level<sup>1</sup>, accessibility to public transportation, significant size (in the case of the City One Shatin Property), high occupancy rates and high quality, diversified tenant bases for the Properties as a whole. As at 31 December 2004, the combined average occupancy rate of the Properties was 96.7%.

## **Income Diversification**

Each of the Acquisitions is expected to improve the income diversification of Fortune REIT and consequently reduce the extent of reliance by Fortune REIT's income stream on any one single property. The Manager expects that following the Acquisitions, the maximum contribution to Fortune REIT's Net Property Income by any one property for the financial year ending 31 December 2005 will decrease to 35.0% from the maximum of 43.8% prior to the Acquisitions. In addition, the dependence of the Base Rental Income on contributions from the top 10 tenants of Fortune REIT's portfolio is expected to be reduced from 43.7% (based on the Existing Properties) to 26.9% for the financial year ending 31 December 2005 after the Acquisitions.

## **Geographical Diversification**

The Acquisitions will allow Fortune REIT to further diversify its property portfolio geographically in Hong Kong so that Fortune REIT is less dependent on any micro-property market in Hong Kong. This is illustrated by the map in **Appendix 1** which shows the location of the Properties and the Existing Properties in Hong Kong.

## **Increased Liquidity**

Assuming Unitholders' approvals are obtained for all the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and 325.6 million New Units are issued at an illustrative price of HK\$6.10 per New Unit under the Equity Fund Raising, the New Units will constitute 68.5% of the Units as at 31 December 2004. The issue of the New Units may increase the number of Units in the free float and may therefore facilitate improvement in the trading liquidity of the Units on the SGX-ST.

## **Potential for Inclusion in Major Equity Indices**

The addition of the Properties to Fortune REIT's property portfolio will increase the asset base and market capitalisation of Fortune REIT. As referred to above, the number of Units in the free float may increase and this may facilitate improvement in the trading liquidity of the Units on the SGX-ST. The Manager believes that such factors increase the likelihood of Fortune REIT being included in certain major equity indices.

## **Opportunities to Enhance the City One Shatin Property**

Chesterton was appointed by the Manager to undertake an asset enhancement study of commercial facilities in the City One Shatin Property. Chesterton has identified the following opportunities which the Manager believes may enhance the value of the City One Shatin Property:

- strategic district opportunities;
- design and layout opportunities; and
- trade and tenant mix opportunities.

(See **Appendix 10** for a detailed summary review of asset enhancement opportunities for the City One Shatin Property by Chesterton.)

---

<sup>1</sup> Please refer to the Individual Property Summary Report in **Appendix 10**.

As at the date of this Circular, no decision has been made by the Manager to proceed with any asset enhancement work at the City One Shatin Property. Before the Manager proceeds with such asset enhancement work in the future, the Manager will consider the circumstances existing at the relevant time including the cost of such asset enhancement work and the potential increase in Fortune REIT's Net Property Income, and obtain all necessary approvals from the relevant authorities.

### **Economies of Scale**

The Acquisitions will substantially enlarge the property portfolio of Fortune REIT and this could generate possible cost synergies and create economies of scale leading to lower operating costs in relation to the Properties.

### **Capital Management**

The Manager proposes to fund the Acquisitions through a combination of equity and debt financing as Fortune REIT intends to take advantage of the lower cost of debt funding to enhance returns to Unitholders. Following the completion of the Equity Fund Raising and the Acquisitions, Fortune REIT's Gearing is expected to be 31.5% as at 31 December 2005, which is below the maximum Gearing level of 35.0% permitted by the Monetary Authority of Singapore (the "**MAS**"). By maintaining additional Gearing capacity, the Manager believes that Fortune REIT may have some financial flexibility to acquire additional properties as and when the opportunities arise and to fund such acquisitions either fully or partially using borrowings. Further, additional Gearing capacity also allows flexibility to the Manager to undertake asset enhancements and fund any on-going capital expenditure requirements.

Further details about the benefits of the Acquisitions are set out in paragraph 2 of the Letter to Unitholders.

### **PROPOSED FEE SUPPLEMENT TO THE TRUST DEED**

The Trust Deed stipulates that the Base Fee payable to the Manager shall be paid in cash (except in the case of Base Fee referable to the Existing Properties for a period of five years from the initial listing of Fortune REIT on the SGX-ST). The Manager proposes to supplement the Trust Deed to provide that the Manager may elect to receive its Base Fee in the form of Units and/or cash (the "**Base Fee Supplement**"). The Manager believes that the Base Fee Supplement will align the Manager's interest with those of Unitholders.

It is intended that the Acquisition Fee payable to the Manager in respect of the Acquisitions be paid in the form of Units. As the Trust Deed stipulates that the Acquisition Fee is payable in the form of cash, the Manager proposes to supplement the Trust Deed in order to provide that, in respect of any property which may be acquired by Fortune REIT, the Manager may irrevocably elect to receive the Acquisition Fee for such property in the form of Units and/or cash (the "**Acquisition Fee Supplement**" and together with the Base Fee Supplement, the "**Fee Supplement**"). The Manager believes that the Acquisition Fee Supplement will give it flexibility in structuring the Acquisitions and future acquisitions of properties by Fortune REIT to achieve optimal returns for Unitholders and that the issue of such Units will serve to further align the Manager's interests with those of Unitholders.

(See paragraphs 1.4 and 6 of the Letter to Unitholders for further details about the proposed Fee Supplement.)

### **PROPOSED ISSUE PRICE SUPPLEMENT TO THE TRUST DEED**

The Manager proposes to supplement the Trust Deed to allow new Units to be issued as partial or full consideration ("**Consideration Units**") for the purchase of properties at the same issue price per Unit as that for the issue of new Units under an equity fund raising exercise relating to the relevant acquisition or acquisitions (the "**Issue Price Supplement**"). The Manager believes that the Issue Price Supplement will facilitate future acquisitions of properties and enhance the growth of Fortune REIT. (See paragraphs 1.5 and 7 of the Letter to Unitholders for further details about the proposed Issue Price Supplement.)

## SUMMARY OF APPROVALS REQUIRED

Given the benefits which Unitholders are expected to gain as a result of the Acquisitions, the Manager recommends that Unitholders vote to approve each of the following resolutions at the extraordinary general meeting (“**EGM**”) to be held at 2.30 p.m. on 1 June 2005 at One Raffles Boulevard, Meeting Room 308, Level 3, Suntec Singapore International Convention & Exhibition Centre, Singapore 039593:

- that Fortune REIT proceeds with the acquisition of the City One Shatin Property;
- that Fortune REIT proceeds with the acquisition of the Waldorf Garden Property;
- that Fortune REIT proceeds with the acquisition of the Tsing Yi Square Property;
- that Fortune REIT proceeds with the acquisition of the Centre de Laguna Property;
- that Fortune REIT proceeds with the acquisition of the Lido Garden Property;
- that Fortune REIT proceeds with the acquisition of the Rhine Garden Property;
- that Fortune REIT proceeds with the proposed issue of such number of New Units at the Issue Price as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds under the Equity Fund Raising and a consequent adjustment to the distribution period of Fortune REIT;
- that the Joint Bookrunners and Underwriters be granted the discretion to place New Units to Focus Eagle under the private placement tranche of the Equity Fund Raising;
- that the Trust Deed be supplemented with the Fee Supplement; and
- that the Trust Deed be supplemented with the Issue Price Supplement.

Unitholders should note that each of the resolutions relating to the Acquisitions is not subject to, or contingent upon, any other resolutions. The resolutions relating to the Fee Supplement and the Issue Price Supplement are not subject to, or contingent upon, one another or any of the other resolutions. The resolutions relating to the proposed issue of New Units is subject to and contingent upon the passing of any of the resolutions relating to the Acquisitions and each of the resolutions relating to the Acquisitions is subject to and contingent upon the passing of the resolution relating to the proposed issue of the New Units. The proposed placement of New Units to Focus Eagle is subject to and contingent upon the passing of the resolution relating to the proposed issue of New Units.

## INDICATIVE TIMETABLE

<u>Event</u>	<u>Date and Time</u>
Last date and time for lodgement of Proxy Forms	: 30 May 2005 at 2.30 p.m.
Date and time of EGM	: 1 June 2005 at 2.30 p.m.
<b>If the approvals sought at the EGM are obtained:</b>	
Last date and time for trading on a “cum” basis in respect of the Preferential Offering	: 8 June 2005 at 5.00 p.m.
Commencement of trading on an “ex” basis in respect of the Preferential Offering	: 9 June 2005 from 9.00 a.m.
Date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the provisional allocations of Singapore Registered Unitholders under the Preferential Offering	: To be determined (expected to be on or around 13 June 2005 at 5.00 p.m.)
Commencement of the Equity Fund Raising	: To be determined (expected to be on or around mid-June 2005)
Close of the Equity Fund Raising	: To be determined (expected to be on or around end-June 2005)
Last date and time for trading on a “cum” basis in respect of the Rescheduled Distribution	: To be determined (expected to be on or around 22 June 2005 at 5.00 p.m.)
Commencement of trading on an “ex” basis in respect of the Rescheduled Distribution	: To be determined (expected to be on or around 23 June 2005 at 9.00 a.m.)
Date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the Unitholders entitled to the Rescheduled Distribution	: To be determined (expected to be on or around 27 June 2005 at 5.00 p.m.)
Completion of the Acquisitions and the issue of New Units as well as commencement of trading of the New Units on the SGX-ST	: To be determined (expected to be on or around 28 June 2005)
Date of payment of the Rescheduled Distribution	: To be determined (expected to be on or around end-August 2005)

The timetable for the events which are scheduled to take place after the EGM is indicative only and is subject to change at the Manager’s absolute discretion.

## IMPORTANT NOTICE

The value of Units and the income from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

The past performance of Fortune REIT is not necessarily indicative of the future performance of Fortune REIT.

This Circular may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses (including employee wages, benefits and training costs), property expenses and governmental and public policy changes. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view of future events. All forecasts are based on a specified illustrative range of issue prices per Unit and on the Manager's assumptions as explained in **Appendix 2** of this Circular. Such yields will vary accordingly for investors who purchase Units in the secondary market at a market price higher or lower than the illustrative issue price range specified in this Circular. The major assumptions are certain expected levels of property rental income and property expenses over the relevant periods, which are considered by the Manager to be appropriate and reasonable as at the date of the Circular. Unless otherwise indicated, the forward-looking statements are also based on the assumption that Fortune REIT proceeds with all of the six Acquisitions. Outcomes and results expressed in such forward-looking statements will vary accordingly if Unitholders approve only some, and not all, of the Acquisitions. The forecast financial performance of Fortune REIT is not guaranteed and there is no certainty that any such performance can be achieved. Investors should read the whole of this Circular for details of the forecasts and consider the assumptions used and make their own assessment of the future performance of Fortune REIT.

# FORTUNE REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore  
pursuant to a trust deed dated 4 July 2003)

## **Directors of the Manager**

Mr Chiu Justin Kwok Hung (*Chairman*)  
Mr Lim Hwee Chiang (*Chief Executive Officer*)  
Mr Ip Tak Chuen Edmond  
Ms Yeung Eirene  
Mr Lim Lee Meng (*Independent Director*)  
Mr Cheng Moses Mo Chi (*Independent Director*)  
Mrs Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei)  
(*Independent Director*)

## **Registered Office**

9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

13 May 2005

To: Unitholders of Fortune Real Estate Investment Trust

Dear Sir/Madam

## **1. SUMMARY OF APPROVALS REQUIRED**

The following paragraphs set forth a summary of the approvals which the Manager seeks from Unitholders. Approval by way of an Ordinary Resolution is required in respect of the resolutions relating to each Acquisition (see paragraph 1.1 below) while approval by way of an Extraordinary Resolution is required in respect of each of the resolutions relating to the issue of New Units (see paragraph 1.2 below), the placement of New Units to Focus Eagle (see paragraph 1.3 below), the Fee Supplement (see paragraph 1.4 below) and the Issue Price Supplement (see paragraph 1.5 below).

**Unitholders should note that each of the resolutions relating to the Acquisitions is not subject to, or contingent upon, any other resolutions. The resolutions relating to the Fee Supplement and the Issue Price Supplement are not subject to, or contingent upon, one another or any of the other resolutions. The resolutions relating to the proposed issue of New Units is subject to and contingent upon the passing of any of the resolutions relating to the Acquisitions and each of the resolutions relating to the Acquisitions is subject to and contingent upon the passing of the resolution relating to the proposed issue of the New Units. The proposed placement of New Units to Focus Eagle is subject to and contingent upon the passing of the resolution relating to the proposed issue of New Units.**

### **1.1 The Acquisitions**

The Acquisition of the City One Shatin Property constitutes a “major transaction” by Fortune REIT under Chapter 10 of the Listing Manual in respect of which the approval of Unitholders is required.

Each of the Acquisitions will also constitute an “interested person transaction” under Chapter 9 of the Listing Manual as well as an “interested party transaction” under paragraph 6 of the Property Funds Guidelines. Chapter 9 of the Listing Manual requires, *inter alia*, Unitholders’ approval by Ordinary Resolution for an interested person transaction if the value thereof (whether on its own or when aggregated with other transactions entered into with the same interested person during the same financial year) exceeds 5.0% of Fortune REIT’s latest audited net tangible assets (“**NTA**”). Paragraph 6 of the Property Funds Guidelines imposes a similar requirement for an interested party transaction whose value (whether on its own or when aggregated with other transactions with the same interested party during the same financial year) exceeds 5.0% of Fortune REIT’s latest audited NAV. The aggregate value of the Acquisitions exceeds both the aforementioned thresholds. (See paragraphs 3.15.2 and 3.15.3 below for further details.)

In compliance with the requirements of Chapter 9 and 10 of the Listing Manual as well as paragraph 6 of the Property Funds Guidelines, the Manager is seeking Unitholders' approval for each of the Acquisitions. Each resolution for the purposes of a particular Acquisition is separate and independent from the resolutions for the purposes of the other Acquisitions.

(See paragraphs 2 and 3 below for further details about the Acquisitions.)

## 1.2 Issue of New Units

The Trust Deed provides that for an issue of new Units other than by way of a rights issue offered on a *pro rata* basis to all existing Unitholders (together with any other such issue of new Units in the same financial year, including Units issued to the Manager in payment of the Manager's base fee (the "**Base Fee**") payable under the Trust Deed), the prior approval of Unitholders by Extraordinary Resolution is required if the value of such new Units would immediately after its issue, exceed 10.0% of the value of the Deposited Property or if the number of such new Units would, immediately after the issue, exceed 20.0% of the outstanding Units.

Assuming that Fortune REIT proceeds with all six Acquisitions, it is expected that the value of the New Units proposed to be issued under the Equity Fund Raising would, immediately after the New Units are issued, exceed 10.0% of the value of the Deposited Property at that time. Based on the same assumption, the aggregate number of New Units proposed to be issued is also expected to exceed 20.0% of the outstanding Units immediately after the New Units are issued. Accordingly, the Manager seeks the approval of Unitholders to issue such number of New Units under the Equity Fund Raising as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds. As an illustration, assuming the Issue Price is determined to be HK\$6.10, up to 325.6 million New Units will be issued pursuant to the Equity Fund Raising.

**The actual number of New Units to be issued will depend on the Issue Price, the Properties that are to be acquired by Fortune REIT and the gross proceeds required to finance such Acquisitions, as well as the amount of financing from the Facilities.**

Approval in-principle has been obtained from the SGX-ST for the Equity Fund Raising and for the listing and quotation of the New Units on the SGX-ST. The SGX-ST's in-principle approval is not an indication of the merits of the Equity Fund Raising, the Acquisitions, the New Units, Fortune REIT and the waivers granted by the SGX-ST as described in paragraph 4.2 below.

It is intended that the Equity Fund Raising will comprise:

- 1.2.1 a preferential offering comprising approximately 47.7<sup>1</sup> million New Units at the Issue Price to Singapore Registered Unitholders on a non-renounceable basis of one New Unit for every 10 of the Existing Units held as at a date to be determined (fractions of a Unit to be disregarded) and subject to the rounding mechanism described below (the "**Preferential Offering Books Closure Date**") (the "**Preferential Offering**"); and
- 1.2.2 an offering of New Units at the Issue Price by way of:
  - (i) an offering to retail investors in Singapore through the automated teller machines ("**ATMs**") of DBS Bank (including ATMs of POSB) on a "first-come, first-served" basis (the "**ATM Offering**"); and
  - (ii) a private placement to institutional and other investors (including Focus Eagle) (the "**Private Placement**").

Assuming that Unitholders approve all the Acquisitions and that, as an illustration, the Issue Price is determined to be HK\$6.10, a total of 325.6 million New Units will be issued pursuant to the Equity Fund Raising, with the Preferential Offering comprising approximately 47.7<sup>1</sup> million New Units, and the ATM Offering and the Private Placement together making up the remaining New Units.

---

<sup>1</sup> This figure does not take into account the additional Units which will, where necessary, be allocated to Singapore Registered Unitholders to enable them to obtain, after acceptance of their provisional allocations of New Units under the Preferential Offering, aggregate unitholdings in integral multiples of 1,000 Units (as described below in this paragraph).

The actual allocation of the number of New Units to the ATM Offering and the Private Placement will be determined between the Manager and the Joint Bookrunners and Underwriters at a later date when the Issue Price is determined.

Where a Singapore Registered Unitholder's provisional allocation of New Units under the Preferential Offering is other than an integral multiple of 1,000 Units, it will be increased to such number which, when added to such Unitholder's unitholdings as at the Preferential Offering Books Closure Date (being the date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the provisional allocations of Singapore Registered Unitholders under the Preferential Offering), results in an integral multiple of 1,000 Units. For example, a Singapore Registered Unitholder with 2,500 Units as at the Preferential Offering Books Closure Date will be provisionally allocated with 500 New Units under the Preferential Offering (increased from the 250 New Units allocated based on the ratio of one New Unit for every 10 of the Existing Units (fractions of a Unit to be disregarded) under the Preferential Offering) so that, should such Singapore Registered Unitholder decides to accept his provisional allocation of New Units, he will own a total of 3,000 Units.

The making of the Preferential Offering may be prohibited or restricted in certain jurisdictions under their relevant securities laws. Thus, for practical reasons and in order to avoid any violation of the securities legislation applicable in countries (other than Singapore) where Unitholders may have their addresses as registered with The Central Depository (Pte) Limited ("**CDP**"), the Preferential Offering will not be extended to Unitholders whose registered addresses with CDP are outside Singapore and who have not, at least five Market Days prior to the Preferential Offering Books Closure Date, provided CDP with addresses in Singapore for the service of notice and documents. Unitholders whose registered addresses with CDP are outside Singapore and who wish to participate in the Preferential Offering will have to provide CDP with addresses in Singapore for the service of notice and documents at least five Market Days prior to the Preferential Offering Books Closure Date.

New Units under the Preferential Offering which are not taken up by the Singapore Registered Unitholders for any reason will be aggregated and sold, at the discretion of the Joint Bookrunners and Underwriters, to satisfy excess demand for New Units under the Private Placement to the extent that there is such excess demand.

Acceptance of the provisional allocations of New Units may be effected via prescribed application forms or through the ATMs of DBS Bank (including the ATMs of POSB) and other relevant participating banks.

In conjunction with the proposed Equity Fund Raising, the Manager intends to declare a distribution of Fortune REIT's tax-exempt income for the period from 1 January 2005 to the day immediately prior to the date on which New Units are issued (the "**Rescheduled Distribution**"). The Manager expects the completion of the Acquisitions and the issue of the New Units to be on or around 28 June 2005. However, in the event that there is any delay in the completion and the issue of New Units, the distribution period may extend beyond 30 June 2005 and the Manager will notify the Unitholders by way of a public announcement to the SGX-ST. The next distribution following the Rescheduled Distribution will comprise Fortune REIT's tax-exempt income for the period from the day the New Units are issued to 31 December 2005.

For the avoidance of doubt, the New Units will not be entitled to participate in the distribution of any tax-exempt income accrued by Fortune REIT prior to the issue of such Units.

(See paragraphs 2 and 3 below for further details about the Acquisitions and paragraph 4 below for further details about the Equity Fund Raising and the Rescheduled Distribution.)

### **1.3 Placement to Focus Eagle**

To facilitate the Equity Fund Raising, the Manager is also seeking the approval of Unitholders for the placement of New Units under the Private Placement to Focus Eagle.

In the event that the Joint Bookrunners and Underwriters decide to place New Units to Focus Eagle under the Private Placement, the number of New Units placed to Focus Eagle will be no more than what would be required to enable Focus Eagle to maintain its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date, after taking into account the New Units subscribed by Focus Eagle under the Preferential Offering.

### **1.3.1 Rule 812(1) of the Listing Manual**

Rule 812(1) of the Listing Manual prohibits a placement of new Units to Substantial Unitholders. The SGX-ST has confirmed that the Manager can place New Units to DBS Bank group and The Capital Group of Companies, Inc. (both of which are Substantial Unitholders) under the Private Placement, to enable them to maintain their proportionate pre-placement unitholdings (in percentage terms) as at the Latest Practicable Date, without the requirement of Unitholders' approval.

As the SGX-ST's approval does not extend to such placements to Focus Eagle, the Manager is seeking Unitholders' approval for the placement of New Units under the Private Placement to Focus Eagle to enable Focus Eagle to maintain its proportionate pre-placement unitholdings (in percentage terms) as at the Latest Practicable Date, after taking into consideration its entitlement to New Units under the Preferential Offering. Focus Eagle and its associates (as defined in the Listing Manual), which include the Manager, are prohibited from voting on the resolutions in relation to such placement of New Units to Focus Eagle.

### **1.3.2 Chapter 9 of the Listing Manual**

As at the Latest Practicable Date, Focus Eagle owned 129,685,000 Units (comprising approximately 27.2% of the Existing Units) and Ballston Profits Limited ("**Ballston**") owned 58,995,000 Units (comprising approximately 12.4% of the Existing Units). Focus Eagle is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited and Ballston is a wholly-owned subsidiary of Hutchison Whampoa Limited, which is in turn 49.9% owned by Cheung Kong (Holdings) Limited. Further, as at the Latest Practicable Date, the Manager owned 460,822 Units (comprising approximately 0.09678% of the Existing Units). The Manager is 30.0% indirectly owned by Cheung Kong (Holdings) Limited.

As such, Cheung Kong (Holdings) Limited is deemed to have an interest in 189,140,822 Units as at the Latest Practicable Date (comprising approximately 39.7% of the Existing Units) in Fortune REIT through Focus Eagle, Ballston and the Manager. Accordingly, Cheung Kong (Holdings) Limited is regarded as a controlling unitholder ("**Controlling Unitholder**") of Fortune REIT under the Listing Manual and Focus Eagle, Ballston and the Manager, as associates of Cheung Kong (Holdings) Limited, are regarded as "interested persons" under the Listing Manual.

Accordingly, a placement of New Units to Focus Eagle would constitute an interested person transaction under Chapter 9 of the Listing Manual. If such number of New Units are placed to Focus Eagle as are required for Focus Eagle to maintain its proportionate unitholding at the pre-placement level as at the Latest Practicable Date, there is a possibility (depending on the Issue Price) that the value of such New Units placed would exceed 5.0% of the value of Fortune REIT's latest audited NTA. Therefore, Rule 906 of the Listing Manual also requires Unitholders' approval for such a placement of New Units to Focus Eagle.

### **1.3.3 Trust Deed Requirements**

In addition, Clause 5.2.6(c) of the Trust Deed requires that a placement of new Units to interested persons (as defined in the Listing Manual) and/or interested parties (as

defined in the Property Funds Guidelines) (together, the “**Related Parties**”) of the Trustee or the Manager must be approved by way of an Extraordinary Resolution of Unitholders.

Under Clause 5.2.6(c) of the Trust Deed, each of the following persons is prohibited from voting on the resolutions to approve the placement of New Units to Focus Eagle:

- (i) Focus Eagle;
- (ii) the Related Parties of Focus Eagle; and
- (iii) the directors and immediate family members of directors of the persons referred to in (i) and (ii) above.

(See paragraph 5 below for further details about the placement of New Units to Focus Eagle.)

#### **1.3.4 Undertaking by Focus Eagle**

Focus Eagle, which owns an aggregate of 129,685,000 Units as at the Latest Practicable Date (comprising approximately 27.2% of the Existing Units), has given an undertaking to the Joint Bookrunners and Underwriters, the Trustee (as trustee of Fortune REIT) and the Manager to:

- (i) apply for and take up its full entitlement of New Units under the Preferential Offering; and
- (ii) apply for and take up such number of New Units under the Private Placement as may be necessary to maintain its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date (after taking into consideration its entitlement to New Units under the Preferential Offering), subject to the requisite approval being obtained at the EGM for such a placement of the New Units to Focus Eagle.

#### **1.4 Fee Supplement**

The Trust Deed entitles the Manager to receive a base fee (“**Base Fee**”) of 0.3% of the Property Values. The Trust Deed also entitles the Manager to receive an acquisition fee (the “**Acquisition Fee**”) of 1.0% of the acquisition price of any property (save for the Existing Properties which form the initial property portfolio of Fortune REIT) acquired directly or indirectly by Fortune REIT. Except for the amount of the Base Fee referable to the Existing Properties, the Trust Deed currently stipulates that the Base Fee and the Acquisition Fee are to be paid entirely in cash.

The Manager proposes to supplement the Trust Deed in order to provide that the Manager may elect to receive the Base Fee in the form of Units and/or cash. The Manager also proposes to supplement the Trust Deed in order to provide that, in respect of the Properties and each additional property which may be acquired by Fortune REIT in the future, the Manager may irrevocably elect to receive the Acquisition Fee for each such property in the form of Units and/or cash. Should the Manager elect to receive Units in payment of its Base Fee, such Units are to be issued at the market price calculated as the volume weighted average traded price per Unit for all trades on the SGX-ST, in the ordinary course of trading, for the period of 10 business days (being any day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are open for business in Singapore and the SGX-ST is open for trading) immediately preceding the relevant business day on which such Units are to be issued (the “**10 day Volume Weighted Average Price**”). Should the Manager elect to receive Units in payment of its Acquisition Fee, such Units are to be issued at the same price as that for the issue of new Units under an equity fund raising relating to an acquisition, or, if there is no such equity fund raising, at the 10-day Volume Weighted Average Price. These proposed supplements are hereinafter referred to as the “**Fee Supplement**”.

To that end, the Manager is seeking Unitholders’ approval under Clauses 15.1 and 15.2 of the Trust Deed to supplement the Trust Deed with the Fee Supplement.

The Manager will receive the Base Fee up to the date falling five years from the initial listing of Fortune REIT on the SGX-ST and the Acquisition Fee in respect of the Properties in the form of Units, subject to Unitholders' approval of the Acquisition Fee Supplement.

(See paragraph 6 below for further details about the proposal to supplement the Trust Deed with the Fee Supplement and the sections entitled "**Base Fee Supplement**" and "**Acquisition Fee Supplement**" in **Appendix 12** of this Circular for the proposed form of the Fee Supplement.)

## 1.5 Issue Price Supplement

As part of its acquisition growth strategy, Fortune REIT may acquire further properties in the future and may fund these acquisitions with cash or by the issuance of Consideration Units or a combination of both in varying proportions. In the event that Fortune REIT elects to issue Consideration Units to fully or partially fund a future acquisition, the prescribed formula under the Trust Deed for determining the issue price of Consideration Units is different from the prescribed formula for determining the issue price for new Units under an equity fund raising exercise, including an equity fund raising exercise to fund the same acquisition and it is likely that the issue price for the Consideration Units thus determined will differ from the issue price for new Units under such equity fund raising exercise.

Given that Consideration Units and new Units under an equity fund raising exercise are to be issued for the same purpose of funding future property acquisitions, the Manager proposes to supplement the Trust Deed so that it may issue Consideration Units at the same price as that for the issue of new Units under an equity fund raising exercise relating to an acquisition. This proposed supplement is hereinafter referred to as the "**Issue Price Supplement**".

To that end, the Manager is seeking Unitholders' approval under Clause 5.2 of the Trust Deed to supplement the Trust Deed with the Issue Price Supplement.

(See paragraph 7 below for further details about the proposal to supplement the Trust Deed with the Issue Price Supplement and the section entitled "**Issue Price Supplement**" in **Appendix 12** of this Circular for the proposed form of the Issue Price Supplement.)

## 2. THE ACQUISITIONS AND THE RATIONALE FOR THE ACQUISITIONS

### 2.1 The Acquisitions

On 24 March 2005, the directors of the Manager (the "**Directors**") announced that the Trustee (in its capacity as trustee of Fortune REIT) had entered into six separate Sale and Purchase Agreements with Fortune Port in connection with the Acquisitions.

Completion of the Acquisitions is subject to the satisfaction of a number of conditions as described in paragraph 3.5 below.

### 2.2 Rationale for the Acquisitions

The Manager's rationale for the Acquisitions is as follows:

#### 2.2.1 Yield Accretion

The Manager believes that the Acquisitions will improve the DPU enjoyed by Unitholders. Based on the Manager's forecast for the financial year ending 31 December 2005 and the Aggregate Purchase Consideration of HK\$3,439.0 million (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions), the Properties are expected to generate a consolidated property yield<sup>2</sup> of approximately 5.70% for the

---

<sup>2</sup> Property yield is typically calculated as the Net Property Income of a property over its valuation, except that when the property is first acquired, property yield will be based on the purchase consideration for the property. For the Properties, the property yield for the period indicated in the above is based on the Aggregate Purchase Consideration of HK\$3,439.0 million.

financial year ending 31 December 2005, which is higher than the current consolidated implied property yield<sup>3</sup> of approximately 5.59% generated by the Existing Properties (assuming a Unit price of HK\$6.10) for the same period.

For an illustrative Issue Price range of HK\$5.90 to HK\$6.90 under the Equity Fund Raising, the tables on pages 18 to 20 of this Circular show Fortune REIT's forecast DPU in relation to the Existing Properties as well as Fortune REIT's enlarged portfolio of properties upon acquisition of the Properties for the financial year ending 31 December 2005 (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions) in the following circumstances:

- (i) where the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions do not alter Fortune REIT's Gearing of 22.5% as at 31 December 2004;
- (ii) where the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions are equivalent to Fortune REIT's Gearing of 27.9%, adjusted for the effect of the revaluation immediately prior to 31 December 2004; and
- (iii) where the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions increase Fortune REIT's Gearing from 22.5% to 31.5%<sup>4</sup>.

Fortune REIT's financial year-end is 31 December.

The forecast below should be read together with the detailed forecast consolidated profit and loss statement as well as the accompanying assumptions and sensitivity analysis in **Appendix 2** of this Circular, the Deloitte & Touche Corporate Finance Pte Ltd's DCTF's Report on The Profit Forecast in **Appendix 3** of this Circular (the "**DTCF's Statement**") and the Independent Accountants' Report on the Profit Forecast by Deloitte & Touche, Certified Public Accountants (the "**Independent Accountants**") in **Appendix 4** of this Circular.

---

<sup>3</sup> The "implied property yield" is calculated as Net Property Income of the Existing Properties over the value imputed to the portfolio by investors in Fortune REIT based on a Unit price of HK\$6.10.

<sup>4</sup> The projected increased Gearing of 31.5% (as at 31 December 2005) is based on the ratio of total borrowings of HK\$2,498.0 million (comprising Fortune REIT's borrowings of HK\$950.0 million forecast for 2005 in relation to the Existing Properties and proposed additional borrowings of HK\$1,548.0 million for the Acquisitions) to the Deposited Property of HK\$7,930.1 million as at 31 December 2005. The amount of HK\$7,930.1 million is calculated by taking Fortune REIT's projected total asset value of HK\$8,004.9 million, less accrued distributable income of HK\$74.8 million for the period 1 January 2005 to 30 June 2005.

**Forecast DPU (assuming that Unitholders' approvals are obtained for all of the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and Gearing of 22.5%<sup>(1)</sup> is maintained following the Acquisitions and based on the valuation of the Existing Properties as at 31 December 2004<sup>(2)</sup><sup>(3)</sup>)**

Issue Price	Number of New Units Issued <sup>(4)</sup>	Full year 2005 (DPU HK cents) <sup>(5)</sup>		DPU Improvement over Existing Properties
		Existing Properties	After the Acquisitions	
HK\$5.90	459.2 million	31.31	30.42	-2.84%
HK\$5.95	455.4 million	31.31	30.54	-2.46%
HK\$6.00	451.6 million	31.31	30.67	-2.04%
HK\$6.05	447.8 million	31.31	30.80	-1.63%
HK\$6.10	444.2 million	31.31	30.92	-1.25%
HK\$6.15	440.6 million	31.31	31.04	-0.86%
HK\$6.20	437.0 million	31.31	31.16	-0.48%
HK\$6.25	433.5 million	31.31	31.29	-0.06%
HK\$6.30	430.1 million	31.31	31.41	0.32%
HK\$6.35	426.7 million	31.31	31.53	0.70%
HK\$6.40	423.3 million	31.31	31.64	1.05%
HK\$6.45	420.1 million	31.31	31.76	1.44%
HK\$6.50	416.8 million	31.31	31.88	1.82%
HK\$6.55	413.7 million	31.31	31.99	2.17%
HK\$6.60	410.5 million	31.31	32.11	2.56%
HK\$6.65	407.4 million	31.31	32.22	2.91%
HK\$6.70	404.4 million	31.31	32.33	3.26%
HK\$6.75	401.4 million	31.31	32.44	3.61%
HK\$6.80	398.4 million	31.31	32.56	3.99%
HK\$6.85	395.5 million	31.31	32.67	4.34%
HK\$6.90	392.7 million	31.31	32.77	4.66%

**Notes:**

- (1) The existing Gearing of 22.5% (as at 31 December 2004) is based on the ratio of total borrowings of HK\$926.0 million to the Deposited Property of HK\$4,109.0 million as at 31 December 2004. The amount of HK\$4,109.0 million is calculated by taking Fortune REIT's total asset value of HK\$4,187.1 million (based on the appraised value of HK\$4,184.0 million for the Existing Properties as at 31 December 2004) less accrued distributable income of HK\$78.1 million for the period from 1 July 2004 to 31 December 2004. The Existing Properties have been revalued at HK\$4,184.0 million as at 31 December 2004, which is HK\$795.0 million more than the valuation as at 31 December 2003.
- (2) The assumed Gearing of 22.5% (as at 31 December 2005) is based on the ratio of total borrowings of HK\$1,784.3 million (comprising Fortune REIT's borrowings of HK\$950.0 million forecast for 2005 in relation to the Existing Properties and proposed additional borrowings of HK\$834.3 million for the Acquisitions) to the Deposited Property of HK\$7,930.1 million as at 31 December 2005. The amount of HK\$7,930.1 million is calculated by taking Fortune REIT's forecast total asset value of HK\$8,004.9 million less forecast accrued distributable income of HK\$74.8 million for the period from 1 January 2005 to 30 June 2005.
- (3) Assuming that the Manager's Base Fee and Acquisition Fee for the Properties is paid in Units.
- (4) The maximum number of New Units issued will vary according to the Issue Price.
- (5) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in **Appendix 2**. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

**Forecast DPU (assuming that Unitholders' approvals are obtained for all of the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and Gearing is 27.9%<sup>(1)</sup> adjusted for the effect of the revaluation for Existing Properties following the Acquisitions immediately prior to 31 December 2004<sup>(2)</sup><sup>(3)</sup>)**

Issue Price	Number of New Units Issued <sup>(3)(4)</sup>	Full year 2005 (DPU HK cents) <sup>(5)</sup>		DPU Improvement over Existing Properties
		Existing Properties	After the Acquisitions	
HK\$5.90	385.7 million	31.31	31.65	1.09%
HK\$5.95	382.4 million	31.31	31.77	1.47%
HK\$6.00	379.3 million	31.31	31.89	1.85%
HK\$6.05	376.1 million	31.31	32.01	2.24%
HK\$6.10	373.0 million	31.31	32.12	2.59%
HK\$6.15	370.0 million	31.31	32.24	2.97%
HK\$6.20	367.0 million	31.31	32.36	3.35%
HK\$6.25	364.1 million	31.31	32.47	3.70%
HK\$6.30	361.2 million	31.31	32.59	4.09%
HK\$6.35	358.3 million	31.31	32.70	4.44%
HK\$6.40	355.5 million	31.31	32.81	4.79%
HK\$6.45	352.8 million	31.31	32.92	5.14%
HK\$6.50	350.1 million	31.31	33.03	5.49%
HK\$6.55	347.4 million	31.31	33.14	5.84%
HK\$6.60	344.8 million	31.31	33.25	6.20%
HK\$6.65	342.2 million	31.31	33.35	6.52%
HK\$6.70	339.6 million	31.31	33.46	6.87%
HK\$6.75	337.1 million	31.31	33.57	7.22%
HK\$6.80	334.6 million	31.31	33.67	7.54%
HK\$6.85	332.2 million	31.31	33.77	7.86%
HK\$6.90	329.8 million	31.31	33.87	8.18%

**Notes:**

- (1) The Gearing of 27.9% (as at 31 December 2004) is based on the ratio of total borrowings of HK\$926.0 million to the adjusted Deposited Property of HK\$3,314.0 million as at 31 December 2004. The amount of HK\$3,314.0 million is calculated by taking Fortune REIT's total asset value of HK\$4,187.1 million as at 31 December 2004 less accrued distributable income of HK\$78.1 million for the period from 1 July 2004 to 31 December 2004, less the revaluation surplus of HK\$795.0 million for the Existing Properties. The Existing Properties have been revalued at HK\$4,184.0 million as at 31 December 2004, which is HK\$795.0 million more than the valuation as at 31 December 2003.
- (2) The assumed Gearing of 27.9% (as at 31 December 2005) is based on the ratio of total borrowings of HK\$2,212.5 million (comprising Fortune REIT's borrowings of HK\$950.0 million forecast for 2005 in relation to the Existing Properties and proposed additional borrowings of HK\$1,262.5 million for the Acquisitions) to the Deposited Property of HK\$7,930.1 million as at 31 December 2005. The amount of HK\$7,930.1 million is calculated by taking Fortune REIT's forecast total asset value of HK\$8,004.9 million less forecast accrued distributable income of HK\$74.8 million for the period from 1 January 2005 to 30 June 2005.
- (3) Assuming that the Manager's Base Fee and Acquisition Fee for the Properties is paid in Units.
- (4) The maximum number of New Units issued will vary according to the Issue Price.
- (5) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in **Appendix 2**. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

**Forecast DPU (assuming that Unitholders' approvals are obtained for all of the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions, and Gearing is Increased to 31.5%<sup>(1)</sup> following the Acquisitions and based on the valuation of the Existing Properties as at 31 December 2004)<sup>(2)</sup>**

Issue Price	Number of New Units Issued <sup>(3)</sup>	Full year 2005 (DPU HK cents) <sup>(4)</sup>		DPU Improvement over Existing Properties
		Existing Properties	After the Acquisitions	
HK\$5.90	336.6 million	31.31	32.59	4.09%
HK\$5.95	333.8 million	31.31	32.70	4.44%
HK\$6.00	331.0 million	31.31	32.82	4.82%
HK\$6.05	328.3 million	31.31	32.93	5.17%
HK\$6.10	325.6 million	31.31	33.05	5.56%
HK\$6.15	322.9 million	31.31	33.16	5.91%
HK\$6.20	320.3 million	31.31	33.27	6.26%
HK\$6.25	317.8 million	31.31	33.38	6.61%
HK\$6.30	315.3 million	31.31	33.48	6.93%
HK\$6.35	312.8 million	31.31	33.59	7.28%
HK\$6.40	310.3 million	31.31	33.70	7.63%
HK\$6.45	307.9 million	31.31	33.80	7.95%
HK\$6.50	305.6 million	31.31	33.91	8.30%
HK\$6.55	303.2 million	31.31	34.01	8.62%
HK\$6.60	300.9 million	31.31	34.11	8.94%
HK\$6.65	298.7 million	31.31	34.21	9.26%
HK\$6.70	296.4 million	31.31	34.32	9.61%
HK\$6.75	294.2 million	31.31	34.41	9.90%
HK\$6.80	292.1 million	31.31	34.51	10.22%
HK\$6.85	289.9 million	31.31	34.61	10.54%
HK\$6.90	287.8 million	31.31	34.71	10.86%

**Notes:**

- (1) The assumed increased Gearing of 31.5% (as at 31 December 2005) is based on the ratio of total borrowings of HK\$2,498.0 million (comprising Fortune REIT's borrowings of HK\$950.0 million forecast for 2005 in relation to the Existing Properties and proposed additional borrowings of HK\$1,548.0 million for the Acquisitions) to the Deposited Property of HK\$7,930.1 million as at 31 December 2005. The amount of HK\$7,930.1 million is calculated by taking Fortune REIT's forecast total asset value of HK\$8,004.9 million less forecast accrued distributable income of HK\$74.8 million for the period from 1 January 2005 to 30 June 2005. The valuation of the Existing Properties as at 31 December 2004 is HK\$4,184.0 million, which is HK\$795.0 million more than the valuation as at 31 December 2003.
- (2) Assuming that the Manager's Base Fee and Acquisition Fee for the Properties is paid in Units.
- (3) The maximum number of New Units issued will vary according to the Issue Price.
- (4) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in **Appendix 2**. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

On the basis of the above, the Manager believes that increasing Fortune REIT's Gearing to 31.5% to, *inter alia*, partly finance the Acquisitions, will result in accretion to Fortune REIT's DPU.

The Manager believes that the appropriate comparison for DPU accretion should be on the basis of the values of the Existing Properties prior to their revaluation as at 31 December 2004 and accordingly excluding the revaluation surplus arising from that revaluation, given that the absolute debt quantum remained largely unchanged compared to the period ended 31 December 2003. For instance, at an Issue Price of HK\$6.10 per New Unit under the Equity Fund Raising, there is a forecast direct DPU accretion of 0.81 HK cents (2.59%) for the financial year ending 31 December 2005 as a consequence of simply acquiring the Properties without increasing Fortune REIT's adjusted Gearing of 27.9% (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions). Upon increasing Fortune REIT's Gearing to 31.5% to, *inter alia*, partly finance the Acquisitions, it is expected that there will be a DPU accretion of 1.74 HK cents (5.56%) for the same period.

Assuming an Issue Price of HK\$6.10 and that 325.6 million New Units are issued pursuant to the Equity Fund Raising, the distribution yield based on Fortune REIT's enlarged portfolio of properties after the Acquisitions for the financial year ending 31 December 2005 is forecast to be 5.42% (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions). In comparison, with the same average closing price of the Existing Units, the distribution yield based on the Existing Properties would only be 5.13%.

The following table, which is based on the Manager's forecast DPU, sets out the forecast distribution yields for the Existing Properties as well as Fortune REIT's enlarged portfolio of properties upon acquisition of the Properties in respect of an illustrative Issue Price range of HK\$5.90 to HK\$6.90 under the Equity Fund Raising. The table shows that, at the Issue Price range indicated therein, the forecast distribution yields for Fortune REIT's enlarged portfolio of properties is expected to exceed the post-tax distribution yield for the Existing Properties for the same period.

## Forecast Post-Tax Distribution Yield

Issue Price (HK\$)	Number of New Units Issued <sup>(1)</sup>	Full Year 2005	
		Existing Properties	After the Acquisitions <sup>(2)</sup>
5.90	336.6 million	5.31%	5.52%
5.95	333.8 million	5.26%	5.50%
6.00	331.0 million	5.22%	5.47%
6.05	328.3 million	5.18%	5.44%
6.10	325.6 million	5.13%	5.42%
6.15	322.9 million	5.09%	5.39%
6.20	320.3 million	5.05%	5.37%
6.25	317.8 million	5.01%	5.34%
6.30	315.3 million	4.97%	5.32%
6.35	312.8 million	4.93%	5.29%
6.40	310.3 million	4.89%	5.27%
6.45	307.9 million	4.85%	5.24%
6.50	305.6 million	4.82%	5.22%
6.55	303.2 million	4.78%	5.19%
6.60	300.9 million	4.74%	5.17%
6.65	298.7 million	4.71%	5.15%
6.70	296.4 million	4.67%	5.12%
6.75	294.2 million	4.64%	5.10%
6.80	292.1 million	4.60%	5.08%
6.85	289.9 million	4.57%	5.05%
6.90	287.8 million	4.54%	5.03%

### Notes:

- (1) The maximum number of Units issued for the purpose of the Equity Fund Raising will vary according to the Issue Price and is calculated based on the assumption that the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions will increase Fortune REIT's Gearing to 31.5% (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions).
- (2) Assuming the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions increases Fortune REIT's Gearing to 31.5% (assuming that Unitholders' approvals are obtained for all of the Acquisitions, that Fortune REIT proceeds with completion of all of the Acquisitions and that the Manager's Base Fee and Acquisition Fee for the Properties is paid in Units).

## 2.2.2 The Acquisitions are in line with the Manager's Objectives and Acquisition Growth Strategy

### (i) The Manager's objectives

The Manager's key objectives for Fortune REIT are to deliver stable distributions to Unitholders and to achieve long-term growth in the NAV per Unit. The Manager intends to accomplish these objectives by ensuring that Fortune REIT continues to own a range of retail properties without over-exposing Fortune REIT's property portfolio to any particular sub-sector, building or tenant.

In view of the high occupancy rate and the diversified tenant mix of the Properties (see paragraphs 2.2.4(ii) and (iii)), the Manager believes that the Acquisitions are in line with its objectives.

Further, to meet these objectives, the strategy of the Manager can be broadly categorised as follows:

- **Asset Enhancement Growth Strategy:** in order to increase yields and returns from the properties owned by Fortune REIT, the Manager will consider a combination of addition to and/or optimisation of retail space in the properties.
- **Organic Growth Strategy:** to actively manage the properties owned by Fortune REIT in order to improve their occupancy levels and Net Property Income.
- **Acquisition Growth Strategy:** to selectively acquire additional properties that meet the Manager's investment criteria which include the location of the properties, stability of cash flow and yield enhancement.
- **Financing Strategy:** to employ an appropriate debt and equity financing strategy in order to optimise the yield and return to Unitholders.

### (ii) The Acquisitions are in line with the Manager's Acquisition Growth Strategy

The Properties are expected to increase Fortune REIT's DPU. Please refer to paragraph 2.2.1 above for a detailed analysis of the forecast effect of the Acquisitions on the DPU of Fortune REIT.

In addition to having a combined average occupancy of 96.7% as at 31 December 2004, the tenant mix of the Properties as a whole is diversified with many leading retailers as tenants. All the Properties are also located in densely populated residential areas with high levels of access to public transportation.

(Please see paragraph 2.2.4 and **Appendix 1** of this Circular for further details of the Properties.)

The Manager believes there are opportunities to improve the Gross Revenue and Net Property Income of the Properties through the following initiatives:

- focused and pro-active asset management;
- focused and pro-active leasing initiatives;
- continued improvement of tenancy mixes;
- improvements in the cost-efficiency of the Properties;
- improvements in the advertising and promotion of the Properties; and
- improvements in non-rental income of the Properties.

The Manager also believes that there are also potential opportunities to effect asset enhancement work at the City One Shatin Property. (Please see paragraph 2.2.9 and **Appendix 10** of this Circular, respectively, for further details about the City One Shatin Property and a detailed summary report of the asset enhancement opportunities for the City One Shatin Property.)

The acquisition of the Properties is therefore in line with the Manager's acquisition growth strategy and the Properties are expected to be significant and valuable additions to Fortune REIT's property portfolio.

### 2.2.3 Retail Market Trend in Hong Kong

The Manager has commissioned the Independent Property Consultant to prepare a report on the Hong Kong retail property market.

According to the Retail Market Overview, the current state of Hong Kong's overall economy has been boosted by various factors such as the growing number of mainland China tourist arrivals, closer economic integration with China, reducing unemployment rate and recovering domestic consumer confidence.

The improving economy has helped the Hong Kong retail market to rebound strongly since August 2003. Total retail sales values and volumes have recorded positive increases on a year on year basis for 17 consecutive months since August 2003.

Considering the robust Hong Kong economy and retail market, the Manager believes that there is potential for future upward adjustment of rental rates for the Properties if the improvement continues.

(See **Appendix 7** for the Retail Market Overview by the Independent Property Consultant.)

### 2.2.4 Competitive Strengths

The Manager believes that the Properties benefit from the following strengths:

#### (i) **Strategic location and large population catchment area**

The majority of the Properties are strategically located in the relatively new towns in the New Territories, which is expected to experience further population growth. All the Properties also enjoy high levels of accessibility to public transportation, with major roads in the vicinity of each Property linking to most parts of Hong Kong.

(a) **The City One Shatin Property:** The City One Shatin Property is located in Shatin, New Territories, south of the Shing Mun River. Its surrounding residents have a high level of affluence with an estimated median monthly household income which is higher than the median monthly household income level for the whole of Hong Kong<sup>5</sup>. It serves the needs of the local residents within City One Shatin, which includes approximately 11,000 private residential units. In addition to residents, its catchment population also includes students and workers.

(b) **The Waldorf Garden Property:** The Waldorf Garden Property is located in the heart of Tuen Mun district surrounded by Tuen Lee Street, Castle Peak Road, Tuen Fat Road and Tuen Shing Street in Tuen Mun, New Territories. The Waldorf Garden Property is part of the Waldorf Garden residential development, comprising 5 tower blocks on top of a commercial complex. The Waldorf Garden Property is connected to the adjacent Tuen Mun Town Plaza, one of the largest shopping malls in the Northwest New Territories, via a covered footbridge. The Waldorf Garden Property is next to the Tuen

---

<sup>5</sup> Please refer to the Individual Property Summary Report in **Appendix 10**.

Mun Highway. A transportation network of buses, light rail and taxis provide convenient access to different parts of the New Territories, Kowloon and Hong Kong Island. Moreover, the KCRC West Rail, which has commenced operation since December 2003, has generated significant shopper traffic to the mall.

- (c) **The Tsing Yi Square Property:** The Tsing Yi Square Property is located on Tsing Yi Island at the northwest of Hong Kong Island. It is part of the residential development of Tsing Yi Garden, which was completed in 1986 and has 1,520 residential units above a commercial complex. The Tsing Yi Square Property is located opposite to the Tsing Yi Urban Service Complex Building, which consists of a wet and dry market, library, sports centre and government offices. It is also near many other public facilities such as Tsing Yi Swimming Pool, Tsing Yi Sports Ground, Tsing Yi Clinic and badminton courts serving the neighbourhood of Tsing Yi. The Tsing Yi Square Property is situated within walking distance of Tsing Yi MTR Station, which provides convenient access to Hong Kong Island, Kowloon and Hong Kong International Airport. It is also easily accessible via buses, public light buses and taxis.
- (d) **The Centre de Laguna Property:** The Centre de Laguna Property is located in Phase 3 of the Laguna City residential development in Cha Kwo Ling within the Kwun Tong district which is a densely populated district comprising mainly large housing estates and industrial estates. The Centre de Laguna Property is designed to serve the local shopping needs of the residents in the area. It was completed in 1992 and is part of the Laguna City residential development, a site of almost one million sq ft with about 8,072 residential units. Another residential project, Sceneway Garden, is also located near the mall. The Centre de Laguna Property is easily accessible to shoppers by public and private transport, namely, buses, public light buses and taxis. It is also within walking distance of the Lam Tin MTR station.
- (e) **The Lido Garden Property:** The Lido Garden Property is located in Sham Tseng, a narrow strip of flat land along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge. Sham Tseng is a small residential area west of Tsuen Wan New Town and the Lido Garden Property is part of the Lido Garden residential development, which was completed in 1989. The area is famous for its restaurants. The piers in Sham Tseng are also a favourite place for people to go fishing. Moreover, new residential developments are currently under construction in the vicinity and, when all of them are fully completed, they are expected to increase shopper traffic for the Lido Garden Property. The Lido Garden Property is easily accessible via buses, public light buses, and taxis.
- (f) **The Rhine Garden Property:** As with the Lido Garden Property, the Rhine Garden Property is located in Sham Tseng along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge. The Rhine Garden Property is part of the Rhine Terrace residential development, which was completed in 1992. It is expected that there will be significant population growth in the area with the full completion of some large residential projects in the vicinity. The Rhine Garden Property is easily accessible via buses, public light buses and taxis.

(ii) **High occupancy level**

As at 31 December 2004, the combined average occupancy rate of the Properties was 96.7%. The City One Shatin Property had an occupancy rate of 95.4%. The Tsing Yi Square Property had an occupancy rate of 97.2%, and each of the Waldorf Garden Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property had an occupancy rate of 100.0%. The high levels of occupancy are a reflection of the strong demand for retail space in the areas in which these Properties are located. If the general retail conditions in

Hong Kong improves, the Manager believes that there is potential for future upward adjustment of rental rates for the Properties.

(See the Retail Market Overview by the Independent Property Consultant and Chesterton Individual Property Summary Report and Chesterton Summary City One Shatin Property Asset Enhancement Report, respectively, in **Appendix 7** and **Appendix 10** of this Circular.)

(iii) **Tenant profile and diversification**

In addition to having high occupancy levels, the tenant mix of the Properties is diversified and many of the tenants of the Properties are leading retailers. Some of the Properties' existing tenants have been serving their respective local residents' shopping needs for more than 10 years.

- (a) **The City One Shatin Property:** The top five tenants, in order of contribution to Base Rental Income as at 31 December 2004 and collectively accounting for 19.6% of the total Base Rental Income of the City One Shatin Property, were Park'N Shop, Bank of China (Hong Kong), McDonald's, Cambridge Nursing Home (City One) Limited and Catiline Anglo-Chinese Kindergarten. It has a well-diversified tenant mix, with no trade sub-sector accounting for more than 26.0% of the Base Rental Income as at 31 December 2004.
- (b) **The Waldorf Garden Property:** The top four tenants, in order of contribution to Base Rental Income as at 31 December 2004, were East Star Hotpot Seafood Restaurant, Café de Coral Fast Food, Deli House Company Limited and Yeh Lam Kwok Restaurant. These tenants were all in the food and beverage, food court trade sub-sector. The fifth largest tenant was Jumpin Gym USA. The Waldorf Garden Property occupies one floor of the Waldorf Garden retail complex and largely represents its food and beverage segment. The food & beverage, food court trade sub-sector contributed 53.1% to the Waldorf Garden Property's Base Rental Income as at 31 December 2004. No other trade sub-sector contributed more than 13.9% of the total Base Rental Income of the Waldorf Garden Property as at 31 December 2004. The top five tenants together accounted for 40.5% of the total Base Rental Income of the Waldorf Garden Property.
- (c) **The Tsing Yi Square Property:** The top five tenants, in order of contribution to Base Rental Income as at 31 December 2004, were Park'N Shop, Co-Win Chinese Restaurant Limited, one individual tenant in the food & beverage, food court trade sub-sector, Tivoli Kindergarten and Nursery Limited and Midland Realty. The Tsing Yi Square Property's tenant mix is well diversified with no trade sub-sector contributing more than 35.2% of the Base Rental Income as at 31 December 2004. The top five tenants together accounted for 33.4% of the total Base Rental Income of the Tsing Yi Square Property.
- (d) **The Centre de Laguna Property:** The top five tenants, in order of contribution to Base Rental Income as at 31 December 2004, were Fook Chun Seafood Restaurant, Think International Kindergarten, Sail Town Enterprises Limited, the Association of Evangelical Free Churches of Hong Kong, and Millirich Corporation Limited. As at 31 December 2004, food & beverage, food court trade sub-sector contributed 41.2% to the Base Rental Income. The top five tenants together accounted for 68.7% of the total Base Rental Income of the Centre de Laguna Property.
- (e) **The Lido Garden Property:** The top five tenants, in order of contribution to Base Rental Income as at 31 December 2004, were Midland Realty, 7-Eleven, Pizza Hut, Health Network Medical Services Co. Ltd. and Centaline Property Agency Ltd. As at 31 December 2004, services, education trade sub-sector contributed most to the Base Rental Income at 43.7%, followed by banking & real estate services trade sub-sector at 33.6%. The top five tenants together accounted for 76.3% of the total Base Rental Income of the Lido Garden Property.

- (f) **The Rhine Garden Property:** The Rhine Garden Property had two tenants, namely Park’N Shop and 7-Eleven as at 31 December 2004. They serve the grocery shopping needs of residents in the Lido Garden and Rhine Garden residential estates.

The top five tenants for the Properties as at 31 December 2004, in order of contribution to the Base Rental Income of the Properties, are Park’N Shop, 7-Eleven, Bank of China (Hong Kong), McDonald’s and Cambridge Nursing Home (City One) Limited. As at 31 December 2004, no tenant accounted for more than 7.1% of the Base Rental Income of the Properties. As at 31 December 2004, the Food & Beverage, Food Court trade sub-sector contributed most to the Base Rental Income of the Properties at 28.9%.

## 2.2.5 Income Diversification

After the Acquisitions, the Manager expects that Fortune REIT will have an enlarged portfolio of properties in which no one property is expected to represent more than 35.0% of the total Net Property Income for the period from 1 January 2005 to 31 December 2005. The further diversification of the sources of Fortune REIT’s Net Property Income means that Unitholders are expected to enjoy even more stable income streams as there will be less dependence on any particular property.

The table below illustrates the diversity of Fortune REIT’s Net Property Income based on the Existing Properties and after the Acquisitions (assuming that the Acquisitions were completed on 1 January 2005):

### Forecast<sup>(1)</sup> Net Property Income contribution for the period from 1 January 2005 to 31 December 2005

	Forecast Net Property Income <sup>(2)(3)</sup> (HK\$ million)	Percentage of total forecast Net Property Income (based on the Existing Properties)	Percentage of total forecast Net Property Income (after the Acquisitions)
The Metropolis Mall	94.3	43.8	22.9
Ma On Shan Plaza	68.3	31.7	16.6
The Household Center	17.0	7.9	4.1
Smartland	20.0	9.3	4.9
Jubilee Court Shopping Centre	15.8	7.3	3.8
<b>Total (Existing Properties)</b>	<b>215.4</b>	<b>100.0</b>	<b>52.3</b>
The City One Shatin Property	144.0	n.a.	35.0
The Waldorf Garden Property	22.8	n.a.	5.6
The Tsing Yi Square Property	12.9	n.a.	3.1
The Centre de Laguna Property	8.9	n.a.	2.2
The Lido Garden Property	4.9	n.a.	1.2
The Rhine Garden Property	2.4	n.a.	0.6
<b>Total (After the Acquisitions)</b>	<b>411.3</b>	<b>n.a.</b>	<b>100.0</b>

#### Notes:

- (1) Assuming that Unitholders’ approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions.
- (2) Including car parking income and the payment made to the Manager in respect of the performance fee payable under the Trust Deed (the “Performance Fee”).

- (3) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

As is apparent from the above table, after the Acquisitions, the City One Shatin Property is expected to be the most significant contributor to the Net Property Income of Fortune REIT.

In addition, the dependence of the Base Rental Income on contributions from the top 10 tenants of Fortune REIT's property portfolio is expected to be reduced from 43.7% (based on the Existing Properties) to 26.9% for the financial year ending 31 December 2005 after the Acquisitions.

#### **2.2.6 Geographical Diversification**

The Acquisitions will allow Fortune REIT to diversify its property portfolio geographically in Hong Kong, making Fortune REIT less dependent on any micro-property market in Hong Kong. This is illustrated by the map in **Appendix 1** which shows the location of the Properties and the Existing Properties in Hong Kong.

#### **2.2.7 Increased Liquidity**

Assuming Unitholders' approvals are obtained for all the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and 325.6 million New Units are issued at an illustrative price of HK\$6.10 per New Unit under the Equity Fund Raising, the New Units will constitute 68.5% of the Units as at 31 December 2004. The issue of the New Units may increase the number of Units in the free float and may therefore facilitate improvement in the trading liquidity of the Units on the SGX-ST.

#### **2.2.8 Potential for Inclusion in Major Equity Indices**

The addition of the Properties to Fortune REIT's property portfolio will increase the asset base and market capitalisation of Fortune REIT. As referred to above, the number of Units in the free float may increase and this may facilitate improvement in the trading liquidity of the Units on the SGX-ST. The Manager believes that such factors increase the likelihood of Fortune REIT being included in certain major equity indices.

#### **2.2.9 Opportunities to Enhance the City One Shatin Property**

Chesterton was appointed by the Manager to undertake an asset enhancement study of commercial facilities in the City One Shatin Property. Chesterton has identified the following opportunities which the Manager believes will enhance the value of the City One Shatin Property:

- strategic district opportunities;
- design and layout opportunities; and
- trade and tenant mix opportunities.

(See **Appendix 10** for a detailed summary review of asset enhancement opportunities for the City One Shatin Property by Chesterton.)

As at the date of this Circular, no decision has been made by the Manager to proceed with any asset enhancement work at the City One Shatin Property. Before the Manager proceeds with any such asset enhancement work in the future, the Manager will consider the circumstances existing at the relevant time including the cost of such asset enhancement work and the potential increase to Fortune REIT's Net Property Income, and obtain all necessary approvals from the relevant authorities.

#### **2.2.10 Economies of Scale**

The Acquisitions will substantially enlarge the property portfolio of Fortune REIT and this could generate possible cost synergies and create economies of scale leading to lower operating costs in relation to Properties.

#### **2.2.11 Capital Management**

The Manager proposes to fund the Acquisitions through a combination of equity and debt financing, as Fortune REIT intends to take advantage of the lower cost of debt funding to enhance returns to Unitholders. Following the completion of the Equity Fund Raising and the Acquisitions, Fortune REIT's Gearing is expected to be 31.5% as at 31 December 2005, which is below the maximum gearing level of 35.0% permitted by the MAS. By maintaining additional Gearing capacity, the Manager believes that Fortune REIT may have some financial flexibility to acquire additional properties as and when the opportunities arise and to fund such acquisitions either fully or partially using borrowings. Further, additional Gearing capacity also allows flexibility to the Manager to undertake asset enhancements and fund any on-going capital expenditure requirements.

### **3. DETAILS OF THE ACQUISITIONS**

#### **3.1 Structure of the Acquisitions**

The Trustee (as trustee of Fortune REIT) has entered into separate conditional Sale and Purchase Agreements with Fortune Port for the acquisition of each of the Properties as described below.

##### **3.1.1 The City One Shatin Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the City One Shatin Property through the acquisition of the entire issued share capital of Mightypattern Limited, the company which indirectly owns the City One Shatin Property. The purchase consideration for Mightypattern Limited is the sum of HK\$2,559.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Mightypattern Limited. Any deferred tax liability or assets of Mightypattern Limited and its subsidiaries will not be taken into account in such calculation. The City One Shatin Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$2,680.0 million.

##### **3.1.2 The Waldorf Garden Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Waldorf Garden Property through the acquisition of the entire issued share capital of Waldorf Realty Limited, the company which directly owns the Waldorf Garden Property. The purchase consideration for Waldorf Realty Limited is the sum of HK\$400.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Waldorf Realty Limited. Any deferred tax liability or assets of Waldorf Realty Limited and its subsidiaries will not be taken into account in such calculation. The Waldorf Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$430.0 million.

### **3.1.3 The Tsing Yi Square Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Tsing Yi Square Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Tsing Yi Square Property. The purchase consideration for the Tsing Yi Square Property is HK\$230.0 million. The Tsing Yi Square Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005 is HK\$250.0 million.

### **3.1.4 The Centre de Laguna Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Centre de Laguna Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Centre de Laguna Property. The purchase consideration for the Centre de Laguna Property is HK\$135.0 million. The Centre de Laguna Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$145.0 million.

### **3.1.5 The Lido Garden Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Lido Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Lido Garden Property. The purchase consideration for the Lido Garden Property is HK\$75.0 million. The Lido Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005 is HK\$80.0 million.

### **3.1.6 The Rhine Garden Property**

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Rhine Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Rhine Garden Property. The purchase consideration for the Rhine Garden Property is HK\$40.0 million. The Rhine Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, is HK\$43.0 million.

The Aggregate Purchase Consideration for the Properties is HK\$3,439.0 million, before adjustment for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited. Each of the Properties was appraised by two independent valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million.

The acquisition of each Property by Fortune REIT from Fortune Port is independent of and not conditional upon the acquisition of any other Property by Fortune REIT from Fortune Port.

Each of the Sale and Purchase Agreements is independent of, and not conditional upon, any of the other Sale and Purchase Agreements.

Fortune Port, which is incorporated in the British Virgin Islands, is a wholly-owned subsidiary of ARA Asset Management Limited, a company incorporated in Bermuda. The Manager is also a wholly-owned subsidiary of ARA Asset Management Limited and is therefore a related

corporation of Fortune Port. Please see **Appendix 1** of this Circular for the asset holding structure of Fortune REIT in relation to the Properties after their acquisition by Fortune REIT, as well as details of the Properties.

Fortune Port entered into a “basket” transaction to acquire the Properties from the Original Vendors at an aggregate purchase consideration of HK\$3,383.0 million pursuant to sale and purchase agreements entered into on 1 February 2005.

Fortune Port’s acquisitions of the City One Shatin Property and the Waldorf Garden Property were completed on 4 February 2005 and its acquisitions of the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property were completed on 22 March 2005.

Fortune Port acquired the City One Shatin Property through the acquisition of the entire issued share capital of Mightypattern Limited pursuant to a share purchase agreement. The vendors were Cheung Kong (Holdings) Limited, Aylmer Profits Limited (which was indirectly wholly-owned by Cheung Kong (Holdings) Limited) and an unrelated third party. The share purchase was completed on 4 February 2005 and all the issued share capital of Mightypattern Limited was transferred to Fortune Port on 4 February 2005.

Fortune Port acquired the Waldorf Garden Property through the acquisition of the entire issued share capital of Waldorf Realty Limited pursuant to a share purchase agreement. The vendors were Germinish Company Limited (which was indirectly wholly-owned by Cheung Kong (Holdings) Limited) and an unrelated third party. The share purchase was completed on 4 February 2005 and all the issued share capital of Waldorf Realty Limited was transferred to Fortune Port on 4 February 2005.

Fortune Port acquired the Tsing Yi Square Property pursuant to a property sale and purchase agreement. The vendor was Tsing-Yi Realty Limited, which was directly wholly-owned by Cheung Kong (Holdings) Limited and Chesterfield Realty Limited (which was directly wholly-owned by Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)). The acquisition of the Tsing Yi Square Property was completed, and the Property was transferred to Fortune Port, on 22 March 2005.

Fortune Port acquired the Centre de Laguna Property pursuant to a property sale and purchase agreement. The vendor was Jingcofield Limited, which was indirectly wholly-owned by Cheung Kong (Holdings) Limited. The acquisition of the Centre de Laguna Property was completed, and the Property was transferred to Fortune Port, on 22 March 2005.

Fortune Port acquired the Lido Garden Property pursuant to a property sale and purchase agreement. The vendor was Oriental Mountain Development Limited, which was indirectly wholly-owned by Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust). The acquisition of the Lido Garden Property was completed, and the Property was transferred to Fortune Port, on 22 March 2005.

Fortune Port acquired the Rhine Garden Property pursuant to a property sale and purchase agreement. The vendor was Penkilan Limited, which was indirectly wholly-owned by Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust). The acquisition of the Rhine Garden Property was completed, and the Property was transferred to Fortune Port, on 22 March 2005.

If Fortune REIT proceeds with the completion of all of the Acquisitions pursuant to the Sale and Purchase Agreements, Fortune REIT will pay to Fortune Port the Aggregate Purchase Consideration of HK\$3,439.0 million (subject to the adjustment to the consolidated net current assets/current liabilities of each of Mightypattern Limited and Waldorf Realty Limited respectively). The difference of approximately HK\$56.0 million between the Aggregate Purchase Consideration to be paid by Fortune REIT for the Properties and the aggregate purchase price of HK\$3,383.0 million paid by Fortune Port for the Properties represents the estimated costs and expenses of Fortune Port for facilitating the acquisition of the Properties by Fortune REIT

through acquiring the Properties and holding them in the interim prior to their transfer to Fortune REIT. Such estimated costs and expenses of Fortune Port include approximately HK\$36.0 million for stamp duty and approximately HK\$20.0 million for professional fees and net financing costs after off-setting the net operating income of the Properties in the interim period.

Based on information furnished by Fortune Port to the Manager, the Manager believes that it is not the intention of Fortune Port to make a profit in connection with the acquisition of the Properties from the Original Vendors and the subsequent sale of the Properties to Fortune REIT. Fortune Port's role lies in sourcing for and collecting a critical mass of properties and facilitating the acquisitions of such properties by Fortune REIT.

## **3.2 Costs of the Acquisitions**

### **3.2.1 Aggregate Purchase Consideration**

The Aggregate Purchase Consideration of the Properties is HK\$3,439.0 million, subject to adjustments for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited respectively.

Each of the Properties was appraised by two independent valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million.

### **3.2.2 Other Additional Costs**

The following additional costs are also expected to be incurred by Fortune REIT in connection with the Acquisitions:

- the stamp duty of HK\$23.9 million;
- the Acquisition Fee of approximately HK\$34.4 million (being 1.0% of the Aggregate Purchase Consideration) payable to the Manager pursuant to the Trust Deed; and
- other estimated fees and expenses (including professional fees, the front-end fee payable under the Facilities and expenses) of approximately HK\$71.2 million incurred or to be incurred by Fortune REIT in connection with the Acquisitions.

Subject to and contingent upon the passing of the resolution authorising the Manager to receive payment of its Acquisition Fee in Units under the Trust Deed, the Acquisition Fee of approximately HK\$34.4 million shall be payable to the Manager in Units in accordance with the proposed supplement to the Trust Deed as set out in paragraph 6.2 of the Letter to Unitholders.

## **3.3 Payment of the Purchase Consideration**

The Aggregate Purchase Consideration is to be paid in cash upon Completion.

In relation to the acquisition of the City One Shatin Property and the Waldorf Garden Property, the relevant purchase consideration is to be applied as payment for the transfer of the entire issued share capital of Mightypattern Limited or (as the case may be) the entire issued share capital of Waldorf Realty Limited (collectively, the "**Target Company Shares**").

Part of the Aggregate Purchase Consideration for the Properties will be financed from the net proceeds of an issue of such number of New Units under the Equity Fund Raising as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds.

The actual amount of gross proceeds to be raised from the Equity Fund Raising will depend on which of the Acquisitions are approved by the Unitholders and which Acquisition(s) Fortune REIT proceeds to complete.

The balance of the Aggregate Purchase Consideration is intended to be financed from the proceeds of the Facilities referred to below which Fortune REIT is expected to obtain for the purposes of the Acquisitions, the refinancing of Fortune REIT's existing debt and general working capital.

On Completion, the Existing Property Companies together with the Property Companies will have in place the Facilities of HK\$2,650.0 million comprising a term loan facility and a revolving credit facility, each for a term of five (5) years. Please see paragraph 3.9 for details of the Facilities.

On Completion, the Facilities will be drawn down (i) to finance the payment of part of the purchase consideration ("**Purchase Consideration**") for the acquisition of each of the Properties and (ii) to repay and refinance the borrowings of the Existing Property Companies.

The amount drawn down by Million Nice Development Limited will be used to repay a promissory note issued in favour of Maxon Investment Limited and/or to repay certain inter-company loans from Maxon Investment Limited and Mightypattern Limited respectively. Maxon Investment Limited will in turn use the repayment amount to repay an inter-company loan from Mightypattern Limited. Mightypattern Limited will use such repayment amount to advance the same by way of a facility to Fortune REIT. Fortune REIT will use the proceeds of such facility to pay for part of the purchase consideration for the transfer of the entire issued share capital of Mightypattern Limited.

The amount drawn down by Waldorf Realty Limited will be advanced to Fortune REIT and applied by Fortune REIT to pay for part of the purchase consideration for the transfer of the entire issued share capital of Waldorf Realty Limited.

Prior to Completion, the procedures set out in sections 47E to 48 of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) requiring, among other things, in the case of each relevant company, the issue of the directors' statement of solvency and, where necessary, the passing of a special resolution of the relevant company in general meeting, will have to be complied with to authorise the actions contemplated in the preceding two paragraphs. The Manager has put in place an arrangement for Fortune Port to procure the relevant company to comply with the relevant procedures set out in sections 47E to 48 of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to authorise the giving of financial assistance to Fortune REIT so that a sufficient debt financing facility will be in place and available for drawdown by Fortune REIT at Completion.

The balance of the Aggregate Purchase Consideration which is not financed from the proceeds of the Facilities is to be funded from the amounts raised in the Equity Fund Raising.

### **3.4 Completion**

Completion is expected to take place on the date of commencement of trading of the New Units.

In relation to the acquisition of the City One Shatin Property and the Waldorf Garden Property, a review of the completion management accounts and the Pro Forma Completion Balance Sheet of the Target Companies and their respective subsidiaries will be conducted by the auditors of the Target Companies within 90 days after Completion, and adjustment payments are to be made by or to Fortune Port, to address any overstatement or understatement (as the case may be) of the consolidated net current asset/current liabilities of the Target Companies and their respective subsidiaries as at Completion as shown in the Pro Forma Completion Balance Sheet. Such adjustment payments, if any, will increase or reduce (as the case may be) the payment to Fortune Port for the transfer of the Target Company Shares.

### 3.5 Certain Terms and Conditions of the Sale and Purchase Agreements

The Sale and Purchase Agreements in relation to the acquisition of the City One Shatin Property and the Waldorf Garden Property provide, *inter alia*, that prior to Completion, the relevant Target Company and its subsidiaries must:

- 3.5.1 dispose of their assets, other than the relevant Property, plant and equipment and the consolidated current assets which are to be reflected in the Pro Forma Completion Balance Sheet; and
- 3.5.2 discharge all their liabilities, other than:
  - (i) inter-company loans within the group;
  - (ii) the consolidated current liabilities which are to be reflected in the Pro Forma Completion Balance Sheet; and
  - (iii) the provision for deferred tax liability which is to be reflected in the completion management accounts of the relevant Target Company and its subsidiaries.

The completion of each of the Acquisitions will be subject to the satisfaction of a number of conditions including:

- (a) the Equity Fund Raising and the relevant Acquisition being approved by Unitholders;
- (b) (in the case of the City One Shatin Property and the Waldorf Garden Property) Fortune REIT or (in the case of the Centre de Laguna Property, the Tsing Yi Square Property, the Lido Garden Property and the Rhine Garden Property) the company nominated by Fortune REIT to directly hold the relevant Property, obtaining sufficient debt facility to finance the relevant Acquisition and such facility being in place and available for drawdown at Completion;
- (c) the placement agreement to be entered into between the Joint Bookrunners and Underwriters and the Manager in relation to the underwriting of certain portions of the Equity Fund Raising being unconditional in all respects;
- (d) the approval in-principle of the SGX-ST for the listing and quotation of the New Units on the Main Board of the SGX-ST having been obtained; and
- (e) (in the case of the acquisition of the City One Shatin Property and the Waldorf Garden Property) the obtaining of necessary governmental and regulatory approvals.

In the case of the Waldorf Garden Property the necessary governmental approvals to be satisfied prior to Completion will include the obtaining of letters from the Registrar General (Land Officer) of Hong Kong granting waivers to non-compliance with Special Condition 24 of the Government Lease relating to an Assignment, a mortgage and the creation of certain tenancies and licences, which require the prior consent of the Registrar General (Land Officer) of Hong Kong and more particularly described in paragraphs 3.12.2(i) and (ii). Under the relevant Sale and Purchase Agreement for the Waldorf Garden Property, Fortune Port has undertaken to use its best endeavours to procure fulfilment of the aforesaid completion conditions, and to the extent that any conditions (including fines, fees and/or penalties) are imposed in relation to the waivers granted, such conditions shall be fulfilled at the cost of Fortune Port. The Manager and the Trustee may waive the condition referred to in paragraph (e) above in relation to any governmental or regulatory approvals if they receive a satisfactory legal opinion from a reputable law firm in Hong Kong.

Each of the Sale and Purchase Agreements provides that the long-stop date for the satisfaction of the above conditions is six months after the date of the relevant Sale and Purchase Agreement.

The Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property are sold on an “as is, where is” basis and subject to the existing tenancies and licences. The Sale and Purchase Agreement in relation to the City One Shatin Property contains certain representations and warranties made by Fortune Port in respect of the City One Shatin Property, Mightypattern Limited and its subsidiaries. Similarly, the Sale and

Purchase Agreement in relation to the Waldorf Garden Property contains certain representations and warranties made by Fortune Port in respect of the Waldorf Garden Property, Waldorf Realty Limited and its subsidiaries.

Each of the Sale and Purchase Agreements in relation to the City One Shatin Property and the Waldorf Garden Property also sets out limitations on the liability of Fortune Port in respect of any breach of warranties, including provisions for aggregate maximum liability, minimum threshold for claims and a limitation period of 21 months for all claims.

Upon Completion, Fortune Port will novate to the Trustee (as trustee of Fortune REIT) certain of its rights, benefits and related obligations under the sale and purchase agreements entered into by Fortune Port with the Original Vendors in connection with its acquisition of the Target Company Shares.

The acquisition of each Property by Fortune REIT from Fortune Port is independent of and not conditional upon the acquisition of any other Property by Fortune REIT from Fortune Port. Unless the relevant approvals of Unitholders have been obtained, Fortune REIT is not obliged to buy any or all of the Properties.

### **3.6 Tax Indemnification**

#### **3.6.1 Deeds of Tax Covenant in favour of Fortune Port**

The previous ultimate shareholders of the Target Companies (which include Cheung Kong (Holdings) Limited), had, together with the relevant Original Vendors, on completion of the acquisition of the Target Companies by Fortune Port, entered into separate deeds of tax covenant in favour of Fortune Port, covenanting to indemnify Fortune Port in respect of:

- (i) any liability of the Target Company and/or any of its subsidiaries for taxation resulting from or by reference to any event occurring on or before completion or in respect of any gross receipts, income, profits or gains earned, accrued or received by the Target Company and/or any of its subsidiaries on or before completion which is not provided for in the Pro Forma Completion Balance Sheet under the relevant sale and purchase agreement entered into by Fortune Port; and
- (ii) in the case of Mightypattern Limited, any liability for taxation in respect of the gain of HK\$897,887,000 arising on the disposal by Maxon Investment Limited of the City One Shatin Property pursuant to the assignment dated 30 July 2003 entered into between Maxon Investment Limited and Million Nice Development Limited and which have been reported as non-assessable profits, and in the case of Waldorf Realty Limited, any liability for taxation in respect of the gain of HK\$185,593,229 arising on the disposal by Waldorf Realty Limited of the Waldorf Garden Property pursuant to the assignment dated 30 July 2003 entered into between Waldorf Realty Limited and Colour Sky International Limited and which have been reported as non-assessable profits.

The limitation period for claims under paragraph 3.6.1(i) above is seven years from the date of completion of the relevant sale and purchase agreement. The limitation period for claims under paragraph 3.6.1(ii) above is seven years from the date of completion of the relevant sale and purchase agreement and provided that an assessment is raised by the Hong Kong tax authority relating to such event within seven years from the date of completion of the relevant sale and purchase agreement. Fortune Port's right of claim is not prejudiced by any taxation action or proceeding in respect of the relevant tax liability which is the subject matter of the claim not being finally resolved before expiry of the applicable limitation period.

In this connection, the Original Vendors may direct the conduct of any taxation proceedings subject to, *inter alia*, an indemnity for costs from the relevant Original Vendors and other provisions.

Upon Completion, Fortune Port will novate all its rights, benefits and related obligations under the deeds of tax covenant to the Trustee (as trustee of Fortune REIT).

### **3.6.2 Deeds of Tax Covenant in favour of the Trustee**

In addition to the deeds of tax covenant referred to in paragraph 3.6.1 above, for each Target Company, Fortune Port will, on Completion, enter into separate deeds of tax covenant in favour of the Trustee (as trustee of Fortune REIT), covenanting to indemnify the Trustee in respect of any liability of the Target Company and/or any of its subsidiaries for taxation resulting from or by reference to any event occurring on or before Completion or in respect of any gross receipts, income, profits or gains earned, accrued or received by the Target Company and/or any of its subsidiaries on or before Completion which is not provided for in the Pro Forma Completion Balance Sheet under the relevant Sale and Purchase Agreement.

In this connection, Fortune Port may direct the conduct of any taxation proceeding subject, *inter alia*, to an indemnity for costs from Fortune Port and other provisions.

The limitation period for claims under the deeds of tax covenants referred to above is seven years from the date of Completion. The Trustee's right of claim is not prejudiced by any taxation action or proceeding in respect of the relevant tax liability which is the subject matter of the claim not being finally resolved before expiry of the applicable limitation period.

### **3.7 Indemnity and Undertaking in favour of Waldorf Realty Limited**

The previous ultimate shareholders of the Target Companies (which include Cheung Kong (Holdings) Limited) have on completion of the acquisition of the Waldorf Garden Property by Fortune Port entered into a deed of indemnity and undertaking in favour of Waldorf Realty Limited whereby they assumed several obligations in equal proportions to indemnify Waldorf Realty Limited upon demand from and against any and all losses that Waldorf Realty Limited suffers or incurs directly or indirectly upon account of or in respect of any claims made by the owners of the development known as Waldorf Garden (of which the Waldorf Garden Property forms part) in respect of maintenance and repair costs relating to the pedestrian pavement constructed by Waldorf Realty Limited at Waldorf Garden pursuant to an undertaking dated 23 March 1983 that were paid, on or before completion of the acquisition of the Waldorf Garden Property by Fortune Port, out of the management fund of Waldorf Garden.

In addition, Cheung Kong (Holdings) Limited will indemnify Waldorf Realty Limited against the losses incurred by Waldorf Realty Limited in respect of its capacity as manager of Waldorf Garden under the relevant Deed of Mutual Covenant and the management agreement made between Waldorf Realty Limited and Guardian Property Management Limited, and the costs of repair and maintenance of all buildings and structures on Waldorf Garden, for so long as such obligations subsist and have not been waived or deleted by the relevant authority, and provided that such indemnity will continue only for so long as Guardian Property Management Limited or another member of the Cheung Kong Group (as defined below) is appointed by Waldorf Realty Limited as managing agent of Waldorf Garden (and in this connection, Cheung Kong (Holdings) Limited has undertaken to ensure the availability of an appropriate member of the Cheung Kong Group with at least three years' relevant property management experience to act as managing agent should the existing management agreement be terminated) and such indemnity will terminate (without prejudice to accrued rights and liabilities as at termination) once this ceases to be the case, regardless of whether a member of the Cheung Kong Group is subsequently re-appointed as managing agent. The indemnity will also terminate once Waldorf Realty Limited is dismissed by the co-owners of Waldorf Garden as the manager of Waldorf Garden under the Deed of Mutual Covenant.

Waldorf Realty Limited in turn has agreed that, at the request and cost of Cheung Kong (Holdings) Limited, it will lend all reasonable assistance to any application to the relevant authority (a) for consent to appoint another manager (being a member of the Cheung Kong

Group) as manager of Waldorf Garden in place of Waldorf Realty Limited and/or (b) for consent that Waldorf Realty Limited's repair and maintenance obligations referred to above be waived or deleted.

### **3.8 Property Management Agreement**

As from Completion, the operation, maintenance, management and marketing of all the Properties (with the exception of the City One Shatin Property) will be managed by the Property Manager subject to the overall management by the Manager for the residue of the term (the "Term") of five (5) years commencing from 12 August 2003, the date of listing of Fortune REIT, pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager.

In respect of the City One Shatin Property, the property management services will be provided by Urban Property Management Limited, which is a company not related to Cheung Kong (Holdings) Limited, and the lease management services and marketing services will be provided by the Property Manager, subject to the overall management by the Manager, for the residue of the Term pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager.

### **3.9 Bank Financing**

On Completion, the Existing Property Companies and the Property Companies are expected to have in place the Facilities aggregating HK\$2,650.0 million comprising a HK\$2,385.0 million term loan facility and a HK\$265.0 million revolving credit facility, each for a term of five years. The Facilities will be initially drawn to approximately HK\$2,498.0 million with the term loan fully drawn on Completion. Each loan made under the Facilities will bear interest at the Hong Kong Interbank Offer Rate ("HIBOR") plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year. The Manager expects to fix the interest rate for the Facilities using interest rate swaps of varying tenors which is likely to result in at least 50.0% of the outstanding amount under the Facilities being on a fixed interest rate basis. The Facilities are expected to be secured by, *inter alia*, a mortgage over the Existing Properties and the Properties.

In the case of Waldorf Garden Property, the mortgage over such Property will be executed if and when the letter of consent for such mortgage is obtained from the Registrar General (Land Officer) under the terms of the applicable Government Lease.

### **3.10 Restructuring of Existing Loans from Fortune REIT to the Existing Properties**

As highlighted in Fortune REIT's prospectus dated 28 July 2003, the ability of any of the Existing Property Companies to distribute dividends may be affected by a revaluation loss arising from a revaluation of the Existing Property held by the relevant Existing Property Company. Any revaluation loss may have an impact on the level of dividends which the Existing Property Company is able to pay to Fortune REIT. In such an event, as part of its distribution strategy, the Manager will consider increasing the level of distributable reserves of the relevant Existing Property Company by procuring that Fortune REIT forgives an appropriate amount of the loans owed to it by the relevant Existing Property Company. The Manager is currently restructuring the loans owed to Fortune REIT by the Existing Property Companies into redeemable preference shares as equity instruments to address the accounting implications under FRS 39: Financial Instruments — Recognition and Measurement with regard to interest free loans. Upon any revaluation loss that affects the level of dividends which the Existing Property Company is able to pay to Fortune REIT, an appropriate amount of subvention contribution will be made by Fortune REIT to the Existing Property Company to increase its distributable reserves, and subsequently, the Existing Property Company will commence proceedings to redeem an appropriate amount of preference shares. The relevant Existing Property Company may incur a liability to Hong Kong profits tax on an amount equal to the whole or part of any such subvention contribution; the quantum of the tax liability (if any) will depend on various factors, including

whether and, if so, what amount of the subvention contribution was linked to the amount used by the relevant Existing Property Company to finance capital expenditure. Following the redemption of the preference shares, the redeemed preference shares payable to Fortune REIT will be offset against the receivable from Fortune REIT arising from the subvention contribution. In addition, the Manager may only be able to increase distributable reserves of the Existing Property Company in this manner to the extent that there are redeemable preference shares remaining in the relevant Existing Property Company's equity. The redemption of preference shares will also require certain legal procedures to be completed. These legal procedures include, *inter alia*, the passing of directors' and shareholders' resolutions, the making of the directors' statutory declaration (in the case of Poko Shine Limited, Art Full Resources Limited and Yee Pang Realty Limited only), the preparation of an auditors' report, and publication of a notice in the Hong Kong Government Gazette (in the case of Poko Shine Limited, Art Full Resources Limited and Yee Pang Realty Limited only).

There can be no assurance that the level of dividends payable by Fortune REIT to Unitholders in the future would not be adversely affected by a revaluation loss in respect of any of the Existing Properties. There can also be no assurance that the directors of the Existing Property Companies will make the directors' declaration required to lawfully redeem the redeemable preference shares out of the Existing Property Companies' capital and that the creditors will not challenge the above-mentioned redemption.

### 3.11 Selected Information About the Properties

#### 3.11.1 Description of the Properties

Detailed descriptions of the Properties, including their respective major tenants can be found in **Appendix 1** of this Circular.

#### 3.11.2 Certain Forecast Financial Information Relating to the Properties

The following table presents, in summary, certain selected forecast financial information in relation to the Properties:

	<b>Forecast<sup>(1)</sup></b>
	<b>Full Year 2005<sup>(4)</sup></b>
<b>Gross Revenue</b> (HK\$ million)	266.6
<b>Less Property Operating Expenses</b> (HK\$ million)	70.7
<b>Net Property Income<sup>(2)</sup></b> (HK\$ million)	195.9
<b>Property yield<sup>(3)</sup></b>	5.70%

**Notes:**

- (1) Assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions. The forecast will be different if Unitholders' approvals are not obtained for one or more of the Acquisitions or Fortune REIT does not proceed with completion of one or more of the Acquisitions.
- (2) Including car parking income and the Performance Fee.
- (3) Property yield is typically calculated as the Net Property Income of a property over its valuation, except that when the property is first acquired, property yield will be based on the purchase consideration of the property. For the Properties, the property yield for the period indicated in the above table is based on the Aggregate Purchase Consideration of HK\$3,439.0 million.
- (4) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

The detailed forecast consolidated profit and loss statement of Fortune REIT and the assumptions for the forecast information included in the table above are set out in **Appendix 2** of this Circular.

### **3.11.3 Property Value**

In the Chesterton Summary Valuation Report and the Vigers Appraisal Summary Valuation Report set out in **Appendix 5** and **Appendix 6** respectively, the Independent Valuers estimated the open market value of each Property by using the investment approach, discounted cash flow analysis and the direct comparison method.

### **3.12 Information regarding the Leasehold Title to the Properties**

Each of the Properties is held under a Government Lease which contains terms and conditions ordinarily found in grants or leases granted by the Government of Hong Kong such as provisions requiring the lessee:

- to develop or redevelop the land in compliance with the buildings and town planning legislations and regulations;
- not to exceed the permitted gross floor area or permitted plot ratio and site coverage;
- to use the land and buildings erected on the land for the permitted use;
- to maintain all buildings erected on the land in good and substantial repair and condition;
- to maintain and repair any slopes, retaining walls, supports, foundations or other structures whether on the land or on adjoining land and in accordance with the relevant guidelines issued from time to time by the relevant government authorities;
- to pay the yearly government rent and discharge all taxes, rates, charges and assessments imposed on the land; and
- not to encroach upon or occupy any adjoining Government land.

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

Some of the Government Leases also contain special conditions which impose specific obligations or restrictions on the lessees, details of which are set out in the following sections.

#### **3.12.1 The City One Shatin Property**

The City One Shatin Property 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 Sha Tin Town Lot No. 1 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 certain Agreement and Conditions of Sale deposited and registered in the Sha Tin New Territories Land Registry as New Grant No. 11064, which was dated 30 October 1975 and made between Paramatta Investment Company Limited and the Deputy Secretary for the New Territories for and on behalf of the Governor of Hong Kong as varied and modified by three Modification Letters respectively registered in the Sha Tin New Territories Land Registry by Memorial No. 180771, 184534 and 334013 and a No-objection letter registered in the Sha Tin New Territories Land Registry by Memorial No.400998 (such compliance being evidenced by a Certificate of Compliance dated 31 July 1990 and registered in Sha Tin New Territories Land Registry by Memorial No.571878).

### 3.12.2 The Waldorf Garden Property

The Waldorf Garden Property 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 Tuen Mun Town Lot No. 194 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 certain Agreement and Conditions of Sale deposited and registered in the Tuen Mun New Territories Land Registry as New Grant No. 2344, which was dated 22 January 1980 and made between Waldorf Realty Limited and the Deputy Secretary for the New Territories for and on behalf of the Governor of Hong Kong (such compliance being evidenced by a Certificate of Compliance dated 5 January 1983 and registered in the Tuen Mun New Territories Land Registry by Memorial No.253542).

- (i) Under Special Condition 24(b)(v) of the Government Lease, Waldorf Realty Limited is not allowed to assign mortgage or underlet (save as provided in (ii) below) or otherwise dispose of or part with possession of any of the undivided shares allocated to the communal areas and the whole of those retail shops at Level 3 save with the prior written consent of the Registrar General (Land Officer). Waldorf Realty Limited 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 and whose identity shall have received the prior written approval of the Registrar General (Land Officer) PROVIDED that such consent if given shall be subject to such conditions (if any) as the Registrar General (Land Officer) shall in his absolute discretion stipulate including the provision by Waldorf Realty Limited or the proposed assignee of a Bank Bond in favour of Government in such sum, issued by such Bank, in such form and upon such terms as the Registrar General (Land Officer) may approve or require for securing the performance by Waldorf Realty Limited of its obligations under Special Condition 25 of the Government Lease.

By an Assignment dated 30 July 2003 and registered in the Tuen Mun New Territories Land Registry by Memorial No.1072650 and re-registered by Memorial No.1085404, Waldorf Realty Limited assigned, inter alia, the retail shops at Level 3 to Colour Sky International Limited, which on the same date mortgaged the said retail shops to The Hongkong and Shanghai Banking Corporation Limited.

Completion of the Acquisition of the Waldorf Garden Property is conditional upon Fortune Port delivering a letter from the Registrar General (Land Officer) of Hong Kong granting waiver to the non-compliance with Special Condition 24 of the Government Lease relating to the aforesaid Assignment and mortgage. The Manager and the Trustee may waive any condition in relation to any regulatory approvals if they receive a satisfactory legal opinion from a reputable law firm in Hong Kong.

- (ii) Waldorf Realty Limited is however, pursuant to Special Condition 24(b), entitled to underlet the retail shops at Level 3 at a rack rent without premium for a term not exceeding 7 years without a right of renewal, such underletting and the form of underlease in each case to have received the prior written consent of the Registrar General (Land Officer) who may impose such conditions (including the payment of a fee) in any such consent as he thinks fit.

Completion of the Acquisition of the Waldorf Garden Property is conditional upon Fortune Port delivering a letter from the Registrar General (Land Officer) of Hong Kong granting waiver to the non-compliance with Special Condition 24 of the Government Lease relating to the creation of certain tenancies and licences. The Manager and the Trustee may waive any condition in relation to any regulatory approvals if they receive a satisfactory legal opinion from a reputable law firm in Hong Kong.

- (iii) Under Special Condition 25(a) of the Government Lease, Waldorf Realty Limited or the said management company, to the intent that this obligation shall be binding upon it personally during the whole of the lease term as well as on its successors and assigns, shall in accordance with the Deed of Mutual Covenant in respect of the development erected on Tuen Mun Town Lot No.194 with regard to costs and charges, throughout the term of the lease (notwithstanding that it has assigned, mortgaged, underlet, parted with the possession of or otherwise disposed of the Lot or some interest therein) well and sufficiently manage, insure, decorate, repair, uphold, support, maintain, pave, purge, scour, cleanse, empty, amend, cultivate and keep the lot and all buildings and structures erected and all walls, banks, cuttings, hedges, ditches, rails, lights, pavements, privies, sinks, drains, pipes, wires, cables, conduits, ventilation, air conditioning and humidification apparatus, electrical and gas installations, telephone equipment, refuse collection, treatment and disposal plant, watering and fertilisation systems, channels, watercourses, roads, paths, gardens, lawns, open spaces, landscaped areas, parking, loading, unloading, manoeuvring and service areas, recreational and other facilities thereunto belonging to the lot, by and with all needful and necessary reparations, cleansings, cultivation and amendments to be done to the satisfaction of the Secretary for the New Territories.
- (iv) By an undertaking dated 23 March 1983 and registered in the Tuen Mun New Territories Land Registry by Memorial No.225172, Waldorf Realty Limited has undertaken:
  - (a) not to erect or maintain any structure or erection whatsoever within the northern and southern open arcades or common passage ways at Level 1 (Street Level) of the development known as Waldorf Garden which would in any way impede the free flow of public pedestrian traffic thereon throughout the term of years granted; and
  - (b) to construct and maintain on the external paved area a pedestrian pavement of not less than 3 metres in width which shall be kept free from any obstruction at all times throughout the term to the satisfaction of the District Lands Officer, Tuen Mun (failing which, the Government may carry out such obligation at the costs of Waldorf Realty Limited).

### **3.12.3 The Tsing Yi Square Property**

The Tsing Yi Square Property 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 Tsing Yi Town Lot No. 101 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 certain Conditions of Exchange deposited and registered in the Tsuen Wan New Territories Land Registry as New Grant No. 6229, which was dated 18 May 1984 and made between Tsing-Yi Realty Limited and the District Lands Officer, Tsuen Wan on behalf of the Governor of Hong Kong as varied and modified by a Modification Letter registered in the Tsuen Wan New Territories Land Registry by Memorial No. 376662 (such compliance being evidenced by a Certificate of Compliance dated 12 December 1986 and registered in the Tsuen Wan New Territories Land Registry by Memorial No.415958).

#### **3.12.4 The Centre de Laguna Property**

The Centre de Laguna Property is held from the Government for the residue of the term of years commencing from 31 October 1989 and expiring on 30 June 2047 under a Government Lease of New Kowloon Inland Lot No.6100 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 certain Conditions of Exchange deposited and registered in Land Registry as Conditions of Exchange No.12071, which was dated 31 October 1989 and made between Kin On Development Company Limited and the Assistant Registrar General on behalf of the Governor of Hong Kong (such compliance being evidenced by a Certificate of Compliance dated 10 November 1992 and registered in the Land Registry by Memorial No.5497562).

#### **3.12.5 The Lido Garden Property**

The Lido Garden Property is held from Government for the residue of the further terms of 24 years less the last three days thereof commencing from 1 July 1973 (which 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 Marine Lot 4 deemed to have been granted under and by virtue of the New Territories (Renewable Government Lease) Ordinance (Chapter 152 of Laws of Hong Kong) upon the expiration of the original term of 75 years created by an Agreement and Conditions of Sale deposited and registered in the Tsuen Wan New Territories Land Registry as Conditions of Sale No.2309 and the extension granted thereto by virtue of a letter dated 21 January 1930 from the Director of Public Works to Jehangir Hormusjee Ruttonjee.

#### **3.12.6 The Rhine Garden Property**

The Rhine Garden Property is held from the Government for the residue of the term of years commencing from 1 September 1990 and expiring on 30 June 2047 under a Government Lease of Lot No. 261 in Demarcation District 390 Tsuen Wan 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 certain Conditions of Exchange deposited and registered in Tsuen Wan New Territories Land Registry as New Grant No.6771, which was dated 1 September 1990 and made between Penkilan Limited and the District Lands Officer, Tsuen Wan for and on behalf of the Governor of Hong Kong as varied and modified by a Modification Letter registered in the Tsuen Wan New Territories Land Registry by Memorial No.787947 (such compliance being evidenced by a Certificate of Compliance dated 29 February 2000 and registered in the Tsuen Wan New Territories Land Registry by Memorial No.1337513).

### **3.13 Profit Forecast**

The table below summarises Fortune REIT's forecast Net Property Income and distributable income for the financial year ending 31 December 2005.

The profit forecast takes into account FRS 103 — Business Combination (“**FRS 103 BC**”), which became effective for financial years beginning on or after 1 July 2004. FRS 103 BC requires, among others, negative goodwill be recognised as income in the financial year the negative goodwill arises. Upon implementation of FRS 103 BC by Fortune REIT, the outstanding negative goodwill arising from the acquisition of the Property Companies made before 1 January 2005 will be taken to the accumulated profits as at 1 January 2005 and the accounting profit of Fortune REIT for the financial year ending 31 December 2005 will thereby be reduced by about HK\$3.2 million arising from the non-amortisation of this negative goodwill. However, the reduced accounting profit will not affect Fortune REIT's distributable income to Unitholders as the amortised negative goodwill is not part of Fortune REIT's distributable income pursuant to the Trust Deed. Similarly, the negative goodwill arising from the acquisition of the Target Companies

during the financial year ending 31 December 2005 will be taken to Fortune REIT's profit and loss statement for the financial year ending 31 December 2005. Such accounting recognition will not affect Fortune REIT's distributable income to Unitholders as negative goodwill is not part of Fortune REIT's distributable income pursuant to the Trust Deed.

The profit forecast is prepared on the assumption that Fortune REIT will adopt hedge accounting for its outstanding interest rate swaps in accordance with FRS 39: Financial Instruments — Recognition and Measurement. The fair value changes relating to the portion of the interest rate swaps where there is hedge effectiveness are taken to equity. Fair value changes relating to the portion of the interest rate swaps where there is no hedge effectiveness will be taken to the profit and loss statement.

It is to be noted that the profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in the table below. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality and the difference in interest rates and tenancy expiry profile, the actual Net Property Income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

The profit forecast should be read together with the detailed forecast consolidated profit and loss statement of Fortune REIT as well as the accompanying assumptions and sensitivity analysis in **Appendix 2** of this Circular, the DTCF's Statement in **Appendix 3** of this Circular and the Independent Accountants' Report on the Profit Forecast in **Appendix 4** of this Circular.

The profit forecast assumes that Unitholders' approvals are obtained for all of the Acquisitions and the Fee Supplement, that Fortune REIT proceeds with completion of all of the Acquisitions and that the Acquisition Fee for the Properties and Base Fee will be paid to the Manager in Units. The profit forecast will be different if Unitholders' approvals are not obtained for one or more of the Acquisitions.

## Forecast Consolidated Profit and Loss Statement

	Actual	Forecast		
	Full Year 2004	Full Year 2005		
(HK\$ million)	Existing Properties <sup>(1)</sup>	Existing Properties <sup>(2)</sup>	The Properties	Enlarged Fortune REIT portfolio (comprising the Properties and the Existing Properties) <sup>(3)</sup>
<b>Gross Revenue</b>				
Base Rental Income	209.42	209.18	208.82	418.00
Charge-out Collections	70.12	75.65	38.02	113.67
Other income	28.67	26.53	19.80	46.33
<b>Total Gross Revenue</b>	<b>308.21</b>	<b>311.36</b>	<b>266.64</b>	<b>578.00</b>
<b>Property Operating Expenses</b>				
Property management fees	(5.20)	(5.96)	(6.58)	(12.54)
Other property operating expenses	(82.69)	(83.31)	(58.10)	(141.41)
<b>Total Property Operating Expenses (before payment of the Manager's Performance Fee)</b>	<b>(87.89)</b>	<b>(89.27)</b>	<b>(64.68)</b>	<b>(153.95)</b>
<b>Net Property Income (before payment of the Manager's Performance Fee)</b>	<b>220.32</b>	<b>222.09</b>	<b>201.96</b>	<b>424.05</b>
Manager's Performance Fee	(6.61)	(6.66)	(6.06)	(12.72)
<b>Net Property Income</b>	<b>213.71</b>	<b>215.43</b>	<b>195.90</b>	<b>411.33</b>
Interest expense	(19.10)	(31.35)	(51.08)	(82.43)
Hedging loss	—	(0.12)	(0.50)	(0.62)
Commitment fees	(0.37)	(0.38)	(0.13)	(0.51)
<b>Net Profit Before Tax</b>	<b>194.24</b>	<b>183.58</b>	<b>144.19</b>	<b>327.77</b>
Current taxation	(12.90)	(13.57)	(23.81)	(37.38)
Deferred taxation	(21.06)	(18.55)	(1.42)	(19.97)
<b>Total Hong Kong Taxation</b>	<b>(33.96)</b>	<b>(32.12)</b>	<b>(25.23)</b>	<b>(57.35)</b>

	Actual	Forecast		
	Full Year 2004	Full Year 2005		
(HK\$ million)	Existing Properties <sup>(1)</sup>	Existing Properties <sup>(2)</sup>	The Properties	Enlarged Fortune REIT portfolio (comprising the Properties and the Existing Properties) <sup>(3)</sup>
<b>Net Profit of Property Companies</b>	<b>160.28</b>	<b>151.46</b>	<b>118.96</b>	<b>270.42</b>
Manager's Base Fee	(10.80)	(12.55)	(10.88)	(23.43)
Negative goodwill <sup>(4)</sup>	0.00	0.00	158.97	158.97
Amortisation of negative goodwill	3.15	0.00	0.0	0.0
Foreign exchange differences	0.83	0.00	0.0	0.0
Non-tax deductible trust income/(expenses)	(1.99)	(2.28)	(5.60)	(7.88)
Tax deductible trust expenses	(1.52)	(1.93)	(0.58)	(2.51)
Non tax-exempt income	0.13	0.00	0.00	0.00
<b>Total Trust Expenses</b>	<b>(10.20)</b>	<b>(16.76)</b>	<b>141.91</b>	<b>125.15</b>
<b>Net Profit of Trust</b>	<b>150.08</b>	<b>134.70</b>	<b>260.87</b>	<b>395.57</b>
<b>Add/(less):</b>				
Manager's base fee	10.80	12.55	10.88	23.43
Negative goodwill	0.00	0.00	(158.97)	(158.97)
Amortisation of negative goodwill	(3.15)	0.00	0.00	0.00
Foreign exchange differences	(0.83)	0.00	0.00	0.00
Non-tax deductible trust expenses	1.99	2.28	5.60	7.88
Non tax-exempt income	(0.13)	0.00	0.00	0.00
<b>Income Available For Distribution<sup>(5)</sup></b>	<b>158.76</b>	<b>149.53</b>	<b>118.38</b>	<b>267.91</b>

**Notes:**

- (1) Based on the actual debt size of HK\$926.0 million.
- (2) Based on the assumption that debt size is HK\$950.0 million.
- (3) Assuming that (i) 325.6 million New Units are issued, (ii) the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions increases Fortune REIT's Gearing to 31.5% and (iii) debt size is HK\$2,498.0 million.
- (4) Negative goodwill represents the excess of the group's (which shall mean Fortune REIT and its property companies) interest in the fair value of the identifiable assets and liabilities of a property company at the date of acquisition over the cost of acquisition.
- (5) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

### 3.14 Pro Forma Financial Effects of the Acquisitions

The pro forma financial effects of the Acquisitions on the DPU and NAV per Unit presented below are purely for illustration purposes and were prepared based on the following documentation after taking into account the current estimated total acquisition cost of the Properties (see paragraph 3.2 above) and the estimated costs of the Equity Fund Raising (see paragraph 4.6 below), and assuming that up to 325.6 million New Units are issued pursuant to the Equity Fund Raising at an Issue Price of HK\$6.10, that an estimated 1.8 million Units are issued to the Manager in payment of its Base Fee for the Properties, that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions:

- (i) the audited financial statements of Fortune REIT for the financial year ended 31 December 2004 (the "**Audited Financial Statements**");
- (ii) the unaudited management accounts of Million Nice Development Limited, Colour Sky International Limited, Jingcofield Limited, Oriental Mountain Development Limited and Penkilan Limited (the property companies that owned, respectively, the City One Shatin Property and the Waldorf Garden Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property during the relevant period) for the financial year ended 31 December 2004; and
- (iii) the unaudited management accounts of Tsing-Yi Realty Limited (the property company that owned the Tsing Yi Square Property during the relevant period) for the financial year ended 31 December 2004. For reference purposes only, the latest audited financial statements of Tsing-Yi Realty Limited are for the financial year ended 30 June 2004.

#### 3.14.1 Pro Forma DPU

The pro forma financial effects of the Acquisitions (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions) on the DPU for the financial year ended 31 December 2004, as if Fortune REIT had purchased the Properties on 1 January 2004, and held and operated the Properties through to 31 December 2004, are as follows:

	Existing Properties	After the Acquisitions <sup>(2)</sup>	Existing Properties	After the Acquisitions <sup>(2)(3)</sup>
	Actual <sup>(1)</sup>		Actual <sup>(1)(3)</sup>	
<b>Net profit of Property Companies/Target Companies</b>	(HK\$'000) 213,714	(HK\$'000) 405,629	(S\$'000) 46,263	(S\$'000) 87,808
<b>Income available for distribution</b>	(HK\$'000) 158,756	(HK\$'000) 271,959	(S\$'000) 34,366	(S\$'000) 58,872
<b>Issued Units<sup>(4)</sup></b>	('000) 475,671	('000) 808,679	('000) 475,671	('000) 808,679
<b>DPU</b>	(HK cents) 33.40	(HK cents) 33.63	(Singapore cents) 7.22	(Singapore cents) 7.28

**Notes:**

- (1) For the financial year ended 31 December 2004.
- (2) Including the pro forma results for the financial year ended 31 December 2004.
- (3) Based on the exchange rate of HK\$4.6195 = S\$1.00, being the average of the exchange rates on Bloomberg at the end of each month for the entire year ended 31 December 2004.
- (4) Based on the assumptions that (i) Fortune REIT's Gearing is at 31.5%, (ii) 325.6 million New Units are issued, (iii) an estimated 1.8 million Units are issued to the Manager in payment of its Base Fee and (iv) 5.6 million Units are issued to the Manager in payment of its Acquisition Fee.

### 3.14.2 Pro Forma NAV per Unit

The pro forma financial effects<sup>6</sup> of the Acquisitions (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions) on the NAV per Unit as at 31 December 2004, as if Fortune REIT had purchased the Properties on 1 January 2004, and held and operated the Properties through to 31 December 2004, are as follows:

	Existing Properties <sup>(1)</sup>	After the Acquisitions <sup>(1)</sup>	Existing Properties <sup>(1)(2)</sup>	After the Acquisitions <sup>(1)(2)</sup>
<b>NAV<sup>(1)(3)(5)</sup></b>	(HK\$'000) 3,190,132	(HK\$'000) 5,281,231	(S\$'000) 690,579	(S\$'000) 1,143,247
<b>Issued Units<sup>(4)</sup></b>	('000) 475,671	('000) 808,679	('000) 475,671	('000) 808,679
<b>NAV per Unit</b>	(HK\$) 6.71	(HK\$) 6.53	(S\$) 1.45	(S\$) 1.41

**Notes:**

- (1) After distribution of 100.0% of the pro forma distributable income for the financial year ended 31 December 2004.
- (2) Based on the exchange rate of HK\$4.6195 = S\$1.00, being the average of the exchange rates on Bloomberg at the end of each month for the entire year ended 31 December 2004.
- (3) Based on the appraised value of HK\$4,184.0 million for the Existing Properties as at 31 December 2004 and the aggregate of the lower of the two valuations of each of the Properties as at 31 December 2004 of HK\$3,628.0 million.
- (4) Including an estimated 1.8 million Units issued to the Manager in payment of its Base Fee in respect of the Properties for the period from 1 January 2004 to 31 December 2004 and 5.6 million Units issued to the Manager in payment of its Acquisition Fee assuming a price of HK\$6.10 per Unit.
- (5) Excluding negative goodwill of HK\$134.4 million of the Existing Properties and HK\$155.3 million of the Properties.

### 3.14.3 Pro Forma Capitalisation

The following table sets forth the pro forma capitalisation of Fortune REIT as at 31 December 2004, as adjusted to reflect the assumptions that 325.6 million New Units are issued pursuant to the Equity Fund Raising at an Issue Price of HK\$6.10, that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions. The information in this table should be read in conjunction with paragraph 3.9 above.

<sup>6</sup> The pro forma financial effects are based on the assumptions that Fortune REIT's Gearing is increased to 31.5% following the issue of 325.6 million New Units under the Equity Fund Raising and that the aggregate of the lower of the two valuations of each of the Properties as at 31 December 2004 of HK\$3,628.0 million.

## Pro Forma Capitalisation

	As at 31 December 2004			
	Actual (HK\$ million) <sup>(1)</sup>	Actual (S\$ million) <sup>(1)(2)</sup>	As adjusted <sup>(4)</sup> (HK\$ million)	As adjusted <sup>(4)</sup> (S\$ million) <sup>(2)</sup>
<b>Unsecured debts:</b>				
Short-term . . . . .	26.0	5.6	26.0	5.6
Long-term . . . . .	900.0	194.8	2,448.0	530.0
Expenses relating to the Acquisitions and the Facilities	—	—	(14.3)	(3.1)
<b>Total debts . . . . .</b>	<b>926.0</b>	<b>200.4</b>	<b>2,459.7</b>	<b>532.5</b>
Unitholders' equity <sup>(3)</sup>	3,143.2	680.4	5,166.3	1,118.4
Expenses relating to the Acquisitions and the Equity Fund Raising	(87.5)	(18.9)	(174.8)	(37.8)
<b>Total Unitholders' equity</b>	<b>3,055.7</b>	<b>661.5</b>	<b>4,991.5</b>	<b>1,080.6</b>
<b>Total capitalisation</b>	<b>3,981.7</b>	<b>861.9</b>	<b>7,451.2</b>	<b>1,613.1</b>

### Notes:

- (1) Based on the Audited Financial Statements and adjusting for the distribution in February 2005 of Fortune REIT's distributable income for the period from 1 July 2004 to 31 December 2004.
- (2) Based on the exchange rate of HK\$4.6195 = S\$1.00, being the average of the exchange rates on Bloomberg at the end of each month for the entire year ended 31 December 2004.
- (3) Based on an Issue Price of HK\$6.10 for the issue of 325.6 million New Units and the issue of an estimated 1.8 million Units to the Manager in payment of its Base Fee and the issue of 5.6 million Units are issued to the Manager in payment of its Acquisition Fee. Further, it is assumed that the aggregate of the lower of the two valuations of each of the Properties as at 31 December 2004 is HK\$3,628.0 million, Unitholders approve all the Acquisitions and Fortune REIT proceeds with completion of all the Acquisitions.
- (4) Based on the pro forma financial statements and adjusting for the pro forma distribution for the financial year ended 31 December 2004.

## 3.15 Requirement for Unitholders' Approval of the Acquisitions

### 3.15.1 Major Transaction

- (i) Chapter 10 of the Listing Manual governs the acquisition or disposal of assets, including options to acquire or dispose of assets, by Fortune REIT. Such transactions are classified into the following categories:
  - (a) non-discloseable transactions;
  - (b) discloseable transactions;
  - (c) major transactions; and
  - (d) very substantial acquisitions or reverse takeovers.
- (ii) A proposed acquisition by Fortune REIT may fall into any of the categories set out in sub-paragraph 3.15.1(i) above depending on the size of the relative figures computed on the following bases of comparison:
  - (a) the net profits attributable to the assets acquired, compared with Fortune REIT's net profits;
  - (b) the aggregate value of the consideration given, compared with Fortune REIT's market capitalisation; and

- (c) the number of Units issued by Fortune REIT as consideration for an acquisition compared with the number of Units previously in issue.

Where any of the relative figures computed on the bases set out above exceeds 20.0%, the transaction is classified as a major transaction. The Listing Manual requires that a major transaction involving Fortune REIT be made conditional upon approval by Unitholders in general meeting. The SGX-ST may aggregate separate transactions completed within the last 12 months and treat them as a single transaction for the purpose of determining whether a transaction falls within any of the categories in paragraph 3.15.1(i).

- (iii) The relative figures for the Acquisition of the City One Shatin Property using the applicable bases of comparison described in sub-paragraphs 3.15.1(ii)(a) to 3.15.1(ii)(c) above are set forth below:

<b>Basis of comparison</b>			<b>Relative figure</b>
Comparison of net profits	Net Property Income attributable to the City One Shatin Property: HK\$136.8 million <sup>(1)</sup>	Net Property Income of Fortune REIT: HK\$213.7 million <sup>(2)</sup>	64.0%
Comparison of consideration against market capitalisation	Purchase consideration of the City One Shatin Property: HK\$2,559.0 million	Market capitalisation of Fortune REIT: HK\$3,228.0 million <sup>(3)</sup>	79.3%
Comparison of number of New Units issued as consideration for the Acquisitions with the Existing Units <sup>(4)</sup>	n.a.	n.a.	n.a.

**Notes:**

- (1) Based on pro forma net property income attributable to Million Nice Development Limited for the year ended 31 December 2004.
- (2) Based on the Audited Financial Statements.
- (3) Based on the volume weighted average price of the Units as at 21 March 2005 of HK\$6.7864 as there was no trade of the Units on 22 March 2005.
- (4) No New Units will be issued as consideration for the Acquisitions and therefore this basis of comparison is not applicable to the Acquisitions.

As the relative figures in relation to the Acquisition of the City One Shatin Property set forth in the table above exceeds 20.0%, the Acquisition of the City One Shatin Property is subject to Unitholders' approval under Chapter 10 of the Listing Manual.

### 3.15.2 Interested Person Transaction

#### (i) The Acquisitions

Under Chapter 9 of the 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 NTA, Unitholders' approval is required in respect of the transaction.

As at the Latest Practicable Date, Focus Eagle owned 129,685,000 Units (comprising approximately 27.2% of the Existing Units) and Ballston Profits Limited (“**Ballston**”) owned 58,995,000 Units (comprising approximately 12.4% of the Existing Units). Focus Eagle is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited and Ballston is a wholly-owned subsidiary of Hutchison Whampoa Limited, which is in turn 49.9% owned by Cheung Kong (Holdings) Limited. Further, as at the Latest Practicable Date, the Manager owned 460,822 Units (comprising approximately 0.09678% of the Existing Units). The Manager is 30.0% indirectly owned by Cheung Kong (Holdings) Limited.

Cheung Kong (Holdings) Limited is deemed to have an aggregate indirect interest in 189,140,822 Units as at the Latest Practicable Date (comprising approximately 39.7% of the Existing Units) and is therefore regarded as a Controlling Unitholder. As Fortune Port is 30.0% indirectly owned by Cheung Kong (Holdings) Limited, Fortune Port is an associate of a Controlling Unitholder.

Fortune Port is a related corporation of the Manager as both of them are wholly-owned subsidiaries of ARA Asset Management Limited, a company incorporated in Bermuda.

As an associate of a Controlling Unitholder as well as a related corporation of the Manager, Fortune Port is treated as an interested person of Fortune REIT for the purposes of Chapter 9 of the Listing Manual.

Based on the Audited Financial Statements, the NAV of Fortune REIT was HK\$3,133.7 million (including negative goodwill of HK\$134.4 million) as at 31 December 2004. 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 (approximately HK\$474,000 based on the exchange rate of S\$1.00 = HK\$4.7418 as at 3 January 2005 on Bloomberg)) entered into with the same interested person during the current financial year, equal to or in excess of HK\$156.7 million, such a transaction would have to be subject to Unitholders’ approval. Given the Aggregate Purchase Consideration of HK\$3,439.0 million, the aggregate value of the Acquisitions exceeds the said threshold. As such, each of the Acquisitions are subject to Unitholders’ approval under Chapter 9 of the Listing Manual.

(ii) **Interested Person Transactions with the Cheung Kong Group**

Prior to the Latest Practicable Date, Fortune REIT had entered into several interested person transactions with Cheung Kong (Holdings) Limited and its subsidiaries (collectively, the “**Cheung Kong Group**”) during the course of the current financial year (the “**Existing Interested Person Transactions**”). Details of the Existing Interested Person Transactions may be found in **Appendix 8** of this Circular.

(iii) **Placement to Focus Eagle**

The total costs of the Acquisitions will be financed partially by the net proceeds of the Equity Fund Raising. The balance of the total costs of the Acquisitions is intended to be financed through, *inter alia*, additional bank borrowings to be incurred by the Property Companies.

To facilitate the Equity Fund Raising, New Units may be placed to Focus Eagle. Focus Eagle is an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited.

As at the Latest Practicable Date, Focus Eagle owned 129,685,000 Units (comprising approximately 27.2% of the Existing Units). In the event that New Units are placed to Focus Eagle, the number of New Units placed to Focus Eagle will be no more than what would be required for Focus Eagle to maintain its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date, after taking into account the New Units subscribed by Focus Eagle under the Preferential Offering.

Detailed information on the Equity Fund Raising is set out in paragraph 4 of the Letter to Unitholders.

(iv) **Fees Payable to the Manager**

Upon Completion, the Manager will be entitled under the Trust Deed to receive an Acquisition Fee of approximately HK\$34.4 million, which is equal to 1.0% of the total acquisition price of the Properties under the Sale and Purchase Agreements.

The Acquisition Fee of approximately HK\$34.4 million shall be payable to the Manager in Units, subject to and contingent upon passing of the resolution to permit the Manager to receive payment of its Acquisition Fee in Units under the Trust Deed.

As from Completion, the Manager will have the general power of management over the Properties and its main responsibility is to manage the Properties, as well as other assets and liabilities of Fortune REIT, for the benefit of Unitholders. In particular, the Manager is responsible for the day-to-day management of the assets held by Property Companies, making recommendations to the Trustee on the annual budget and the management and operation of Property Companies, and generally carrying out the activities in relation to the Properties in accordance with the provisions of the Trust Deed.

After Completion, the Manager will also be entitled under the Trust Deed to receive from Fortune REIT management fees attributable to the Properties. The forecast management fee attributable to the Properties for the financial year ending 31 December 2005 is HK\$16.9 million, comprising a base fee of HK\$10.9 million (0.3% per annum of the value of the Properties) and a performance fee of HK\$6.1 million (3.0% per annum from each of the Property Companies of the net property income of each of the Property Companies). The Manager will be entitled to the management fees in the future for so long as the Properties continue to form part of the investment portfolio of Fortune REIT.

(v) **Related Tenancy and Licence Agreements**

Upon Completion, Fortune REIT will, through the Property Companies, take over the benefit of all the tenancy agreements and licence agreements at the Properties, including various tenancy agreements and licence agreements entered into by certain entities within the Cheung Kong Group (the “**Related Tenancy and Licence Agreements**”). The aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements for the year 2005 is estimated at approximately HK\$60.9 million.

The Manager believes that the Related Tenancy and Licence Agreements are made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and Unitholders.

(Please refer to **Appendix 9** for further details on the Related Tenancy and Licence Agreements).

(vi) **Property Management Agreement**

As from Completion, the operation, maintenance, management and marketing of all the Properties (with the exception of the City One Shatin Property) will be managed by the Property Manager subject to the overall management by the Manager for the residue of the term (the “**Term**”) of five years commencing from 12 August 2003, the date of listing of Fortune REIT, pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager.

In respect of the City One Shatin Property, the property management services will be provided by Urban Property Management Limited, which is a company not related to Cheung Kong (Holdings) Limited, and the lease management services and marketing services will be provided by the Property Manager, subject to the overall management by the Manager, for the residue of the Term pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager.

In approving an Acquisition, Unitholders are deemed to have approved the payment of the relevant Acquisition Fee and management fees, the relevant Related Tenancy and Licence Agreements, the agreement to include the relevant Properties as part of the properties to be managed by the Property Manager and the agreement relating to the management of the City One Shatin Property and these agreements are, therefore, not subject to Rules 905 and 906 of the 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 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 Listing Manual.

(vii) **Novations of Certain Sale and Purchase Agreements and Deeds of Tax Covenant**

The novations by Fortune Port to the Trustee of certain of its rights, benefits and related obligations under (a) the sale and purchase agreements entered into between Fortune Port and the relevant Original Vendors in connection with the City One Shatin Property and the Waldorf Garden Property, and (b) the deeds of tax covenant (referred to in paragraph 3.6.1 above), are also considered interested person transactions under the Listing Manual.

The Manager believes that the novations of the above-mentioned sale and purchase agreements and the deeds of tax covenant are made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and Unitholders.

**3.15.3 Interested Party Transaction**

Paragraph 6 of the Property Funds Guidelines 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 an associate of Cheung Kong (Holdings) Limited, a Controlling Unitholder, and as a related corporation of the Manager, Fortune Port is treated as an interested party of Fortune REIT.

Based on the Audited Financial Statements, the NAV of Fortune REIT was HK\$3,133.7 million as at 31 December 2004. 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\$156.7 million, such a transaction would be subject to Unitholders' approval. Given the Aggregate Purchase Consideration of HK\$3,439.0 million, the value of the Acquisitions exceeds the said threshold.

As such, the Acquisitions are also subject to Unitholders' approval under paragraph 6 of the Property Funds Guidelines.

### **3.16 Advice of the Independent Financial Adviser**

The Manager and the Trustee have appointed KPMG Corporate Finance Pte Ltd (the "IFA") to advise the Independent Directors of the Manager and the Trustee as to whether each of the Acquisitions is on normal commercial terms and whether they are prejudicial to the interests of the Trust and the Unitholders. Having considered the factors and made the assumptions set out in its letter, and subject to the qualifications set out therein, the IFA is of the opinion that:

**3.16.1** in accordance with Chapter 9 of the Listing Manual, the Acquisitions are on normal commercial terms and not prejudicial to the Trust and the Unitholders, and

**3.16.2** in accordance with Paragraph 6 of the Property Funds Guidelines, the Acquisitions are on normal commercial terms and not prejudicial to the Unitholders, based on an assessment of the impact of the Acquisitions on the Trust on an overall basis.

A copy of the letter from the IFA to the Independent Directors of the Managers and the Trustee (the "IFA Letter"), containing its advice in full, is set out in **Appendix 11** of this Circular.

### **3.17 Interests of Directors and Substantial Unitholders**

Mr Lim Hwee Chiang is a director of Fortune Port and owns 70.0% of ARA Asset Management Limited, a company incorporated in Bermuda. Fortune Port is a wholly owned subsidiary of ARA Asset Management Limited. Mr Chiu Justin Kwok Hung and Mr Ip Tak Chuen Edmond are directors of both Cheung Kong (Holdings) Limited and the Manager. Mr Chiu Justin Kwok Hung is also a director of Fortune Port. Ms Yeung Eirene, a director of the Manager, is the Corporate Business Counsel and Company Secretary of Cheung Kong (Holdings) Limited.

Cheung Kong (Holdings) Limited is deemed to be interested in 189,140,822 Units as at the Latest Practicable Date (comprising approximately 39.7% of the Existing Units) through Focus Eagle, Ballston and the Manager.

Cheung Kong (Holdings) Limited is also deemed to be interested in each of the Acquisitions as Fortune Port is an associate of Cheung Kong (Holdings) Limited.

Save as disclosed above and based on information available to the Manager, none of the Directors or the Substantial Unitholders has an interest, direct or indirect, in the Acquisitions.

In addition, Mrs Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei), a director of the Manager, holds 100,000 Units as at the Latest Practicable Date.

DBS Bank and its affiliates have an interest in 53.2 million Units (comprising approximately 11.2% of the Existing Units) as at the Latest Practicable Date and therefore constitute a Substantial Unitholder. DBS Bank is also the financial adviser and one of the Joint Bookrunners and Underwriters for the Equity Fund Raising.

### **3.18 Director's Service Contracts**

No person is proposed to be appointed as a director of the Manager in connection with the Acquisitions, any of the Sale and Purchase Agreements or any other transaction contemplated in relation to the Acquisitions.

### 3.19 Taxation

Fortune REIT has obtained a tax ruling dated 11 April 2005 from the Singapore Ministry of Finance on the Singapore tax consequences to Fortune REIT, and to the Unitholders, in relation to dividend distributions receivable from the six Property Companies, two of which are incorporated in Hong Kong whilst the other four are incorporated in the British Virgin Islands, that are made out of income subject to Hong Kong profits tax.

In this connection, the Singapore taxation consequences of Fortune REIT and that of the Unitholders for such income are described below:

#### 3.19.1 Singapore Taxation of Fortune REIT

Fortune REIT will be exempt from Singapore income tax on the dividends received from the six Property Companies that are distributed out of income (including interest income and gains from the sale of real properties) which are subject to Hong Kong profits tax at a rate of not less than 15.0% (the “**Tax-Exempt Income**”).

The tax exemption on such dividends received from the six Property Companies is applicable by virtue of the foreign income exemption regime and/or the provisions of Section 13(12) of the Singapore Income Tax Act. As these dividends are exempt from Singapore income tax, Fortune REIT may distribute such income, after deduction of its tax-deductible expenses, to the Unitholders free of tax deducted at source.

#### 3.19.2 Singapore Taxation of the Unitholders

Unitholders receiving distributions made by Fortune REIT out of its Tax-Exempt Income will not be assessable to Singapore income tax on the distributions received.

*The above summary of certain Singapore income tax consequences of Fortune REIT and the Unitholders is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (which may have a retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be applicable to Fortune REIT and to all categories of Unitholders, some of whom may be subject to special rules. Unitholders should consult their own tax advisers concerning the application of Singapore income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Units arising under the laws of any other taxing jurisdiction.*

## 4. DETAILS OF THE EQUITY FUND RAISING

### 4.1 Overview of the Equity Fund Raising

It is intended that the Equity Fund Raising will comprise:

- 4.1.1 the Preferential Offering comprising approximately 47.7<sup>7</sup> million New Units at the Issue Price to Singapore Registered Unitholders on a non-renounceable basis of one new Unit for every 10 of the Existing Units held as at the Preferential Offering Books Closure Date (fractions of a Unit to be disregarded) and subject to the rounding mechanism; and
- 4.1.2 an offering of New Units at the Issue Price by way of:
  - (i) the ATM Offering to retail investors in Singapore through the ATMs of DBS Bank (including ATMs of POSB) on a “first-come, first-serve basis”; and
  - (ii) the Private Placement to institutional and other investors (including Focus Eagle).

As an illustration, assuming that the Issue Price is determined to be HK\$6.10, a total of 325.6 million New Units will be issued, with the Preferential Offering comprising approximately 47.7<sup>7</sup> million New Units, and the ATM Offering and the Private Placement together making up the remaining New Units.

<sup>7</sup> This figure does not take into account the additional Units which will, where necessary, be allocated to Singapore Registered Unitholders to enable them to obtain, after acceptance of their provisional allocations of New Units under the Preferential Offering, aggregate unitholdings in integral multiples of 1,000 Units (as described below in this paragraph).

The actual allocation of the number of New Units to the ATM Offering and the Private Placement will be determined between the Manager and the Joint Bookrunners and Underwriters at a later date when the Issue Price is determined.

**The actual number of New Units to be issued will depend on the Issue Price, the Properties that are to be acquired by Fortune REIT and the gross proceeds required to finance such Acquisitions, as well as the amount of financing from the Facilities.**

Where a Singapore Registered Unitholder's provisional allocation of New Units under the Preferential Offering is other than an integral multiple of 1,000 Units, it will be increased to such number which, when added to such Unitholder's unitholdings as at the Preferential Offering Books Closure Date (being the date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the provisional allocations of Singapore Registered Unitholders under the Preferential Offering), results in an integral multiple of 1,000 Units. For example, a Singapore Registered Unitholder with 2,500 Units as at the Preferential Offering Books Closure Date will be provisionally allocated with 500 New Units under the Preferential Offering (increased from the 250 New Units allocated based on the ratio of one New Unit for every 10 of the Existing Units (fractions of a Unit to be disregarded) under the Preferential Offering) so that, should such Singapore Registered Unitholder decide to accept his provisional allocation of New Units, he will own a total of 3,000 Units.

#### **4.2 Additional Information on the Preferential Offering**

Singapore Registered Unitholders, including the Restricted Placees (such as the Directors, their immediate family<sup>8</sup> and Substantial Unitholders), can accept their provisional allocations of New Units under the Preferential Offering in full or in part but may not apply for excess New Units thereunder. Restricted Placees who are Singapore Registered Unitholders are permitted to accept their provisional allocations of New Units under the Preferential Offering as the SGX-ST has granted a waiver from the requirements under Rule 812(1) of the Listing Manual.

Acceptance of the provisional allocations of New Units may be effected via prescribed application forms or through the ATMs of the relevant participating banks.

**As the Preferential Offering is made on a non-renounceable basis, the provisional allocations of New Units cannot be renounced in favour of a third party or traded on the SGX-ST.**

Subject to the exceptions described below, Singapore Registered Unitholders (except those who are Restricted Placees) may also, in addition to accepting their provisional allocations of New Units under the Preferential Offering, apply for New Units under the ATM Offering and the Private Placement. Notwithstanding the foregoing, the Directors and their immediate family may apply for New Units under the ATM Offering as the SGX-ST's waiver of the requirements under Rule 812(1) of the Listing Manual (as described above) also extends to allowing such applications by the Directors and their immediate family.

New Units under the Preferential Offering which are not taken up by the Singapore Registered Unitholders for any reason will be aggregated and sold, at the discretion of the Joint Bookrunners and Underwriters, to satisfy excess demand for New Units under the Private Placement to the extent that there is such excess demand.

The making of the Preferential Offering may be prohibited or restricted in certain jurisdictions under their relevant securities laws. Thus, for practical reasons and in order to avoid any violation of the securities legislation applicable in countries (other than Singapore) where Unitholders may have their CDP-registered addresses, the Preferential Offering will not be extended to Unitholders whose registered addresses with CDP are outside Singapore and who have not, at least five Market Days prior to the Preferential Offering Books Closure Date, provided CDP with addresses in Singapore for the service of notice and documents. Unitholders whose registered addresses with CDP are outside Singapore and who wish to participate in the

---

<sup>8</sup> The spouse, children, adopted children, step-children, siblings and parents of the Directors.

Preferential Offering will have to provide CDP with addresses in Singapore for the service of notice and documents at least five Market Days prior to the Preferential Offering Books Closure Date.

**Notice is hereby given that, subject to the relevant approvals sought at the EGM being obtained, the Preferential Offering Books Closure Date (on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the provisional allocations of Singapore Registered Unitholders under the Preferential Offering) will be 13 June 2005 at 5.00 p.m.. This date is two Market Days after the Units commence trading ex-entitlements to provisional allocations under the Preferential Offering on 9 June 2005 at 9.00 a.m..**

In the event that there is any change in the Preferential Offering Books Closure Date, the Manager will notify the Unitholders by way of a public announcement to the SGX-ST.

#### **4.3 Additional Information on the ATM Offering**

In the event that the New Units offered under the ATM Offering are not fully taken up, the number of New Units that are not taken up will be made available to satisfy excess demand for New Units under the Private Placement to the extent that there is such excess demand.

#### **4.4 Additional Information on the Private Placement**

Any excess demand for the New Units under the Private Placement will be satisfied only to the extent that New Units offered under the Preferential Offering and/or the ATM Offering are not taken up and are reallocated to the Private Placement.

#### **4.5 Estimated Proceeds**

The actual number of New Units issued under the Equity Fund Raising will depend on the Issue Price (which is to be determined between the Manager and the Joint Bookrunners and Underwriters closer to the date of commencement of the Equity Fund Raising). Based on an Issue Price of HK\$6.10, and assuming that Unitholders' approval are obtained for all of the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and 325.6 million New Units are issued under the Equity Fund Raising, the estimated gross proceeds of the Equity Fund Raising is expected to be approximately HK\$1,986.1 million (or approximately S\$419.0 based on the fixed exchange rate of S\$1.00 = HK\$4.7401 (as at the Latest Practicable Date<sup>9</sup>).

#### **4.6 Costs of the Equity Fund Raising**

If Fortune REIT proceeds with the Equity Fund Raising, the Manager estimates that Fortune REIT will have to bear the following costs and expenses:

- 4.6.1** the underwriting and selling commissions of, and related expenses payable to, the Joint Bookrunners and Underwriters, amounting to up to HK\$27.8 million; and
- 4.6.2** the professional and other fees and expenses of approximately HK\$43.4 million expected to be incurred by Fortune REIT in connection with the Equity Fund Raising.

#### **4.7 Underwriting of the Equity Fund Raising**

It is intended that the Equity Fund Raising (save for the ATM Offering and the New Units proposed to be placed to Focus Eagle under the Preferential Offering and the Private Placement) will be underwritten by the Joint Bookrunners and Underwriters, and the ATM Offering will be underwritten by DBS Bank. The underwriting will be subject to agreement by the Joint Bookrunners and Underwriters to the terms of an underwriting agreement and the execution thereof.

---

<sup>9</sup> Source: Bloomberg.

#### 4.8 Consequential Adjustment to the Distribution Period

Fortune REIT's policy is to distribute its tax-exempt income (if any) on a half-yearly basis to Unitholders. The next distribution originally scheduled to take place was to be in respect of Fortune REIT's tax-exempt income for the period of 1 January 2005 to 30 June 2005 (the "**Scheduled Distribution**"). However, in conjunction with the proposed Equity Fund Raising, the Manager intends to declare the Rescheduled Distribution, in lieu of the Scheduled Distribution. The next distribution following the Rescheduled Distribution will comprise Fortune REIT's tax-exempt income for the period from the day that New Units are issued<sup>10</sup> to 31 December 2005. Half-yearly distributions will resume after that.

The Rescheduled Distribution is intended to ensure that Fortune REIT's tax-exempt income derived from investments acquired before the New Units are issued is only distributed in respect of the Units in issue prior to the issue of New Units, and is being proposed as a means to ensure fairness to holders of the Existing Units. Under the Rescheduled Distribution, Fortune REIT's tax-exempt income up till the day immediately preceding the issue of the New Units (which, at that point, would have been entirely derived from the investments acquired before the New Units are issued) will only be distributed in respect of the Existing Units.

The date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the Unitholders entitled to the Rescheduled Distribution and further details pertaining to the Rescheduled Distribution will be announced in due course.

**For the avoidance of doubt, New Units will not be entitled to participate in the distribution of any tax-exempt income accrued by Fortune REIT prior to the issue of the New Units.**

#### 4.9 Status of the New Units Issued Pursuant to the Equity Fund Raising

The New Units will, upon issue, rank *pari passu* in all respects with the then existing Units, including the right to any distributions which may be paid for the period from the day the New Units are issued to 31 December 2005 as well as all distributions thereafter. **For the avoidance of doubt, the New Units will not be entitled to participate in the Rescheduled Distribution.**

#### 4.10 Undertaking by Focus Eagle

Focus Eagle, which owns an aggregate of 129,685,000 Units as at the Latest Practicable Date (comprising approximately 27.2% of the Existing Units), has given an undertaking to the Joint Bookrunners and Underwriters, the Trustee (as trustee of Fortune REIT) and the Manager to (i) apply for and take up its full entitlement under the Preferential Offering and (ii) apply for and take up such number of Units under the Private Placement as is necessary to maintain its unitholding following the completion of the Equity Fund Raising at the pre-placement level as at the Latest Practicable Date (after taking into consideration its entitlement to New Units under the Preferential Offering), subject to the requisite approval being obtained at the EGM for such a placement of the New Units to Focus Eagle.

### 5. PLACEMENT TO FOCUS EAGLE

#### 5.1 Listing Manual Prohibition

Rule 812(1) of the Listing Manual prohibits a placement of Units to Focus Eagle. The SGX-ST has, on 28 September 2004, granted its approval to allow the Manager to place New Units to DBS Bank group and The Capital Group of Companies, Inc (which are Substantial Unitholders) under the Private Placement without the requirement of Unitholders' approval at an extraordinary general meeting to enable them to maintain their proportionate pre-placement unitholdings (in percentage terms) as at the Latest Practicable Date, after taking into account the New Units subscribed by it under the Preferential Offering.

<sup>10</sup> The date on which the New Units will be issued pursuant to the Equity Fund Raising has yet to be determined but is expected to be in or around end June 2005.

The aforementioned approval does not extend to the placement of New Units to Focus Eagle under the Private Placement. Accordingly, the Manager is seeking the approval of Unitholders for the placement of New Units under the Private Placement to Focus Eagle. Such placement of New Units will comprise no more than the number of New Units as would be required to enable Focus Eagle to maintain its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date, after taking into account the New Units subscribed by it under the Preferential Offering.

A placement of New Units to Focus Eagle would also constitute an interested person transaction under Chapter 9 of the Listing Manual. If New Units are placed to Focus Eagle at such numbers as to maintain its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date, after taking into account the New Units subscribed by it under the Preferential Offering, there is a possibility (depending on the Issue Price) that the value of such New Units placed to it would exceed 5.0% of the value of Fortune REIT's latest audited NTA. In such an instance, Rule 906 of the Listing Manual also requires Unitholders' approval for a placement of New Units to Focus Eagle.

## **5.2 Trust Deed Requirements**

The Trust Deed requires that a placement of New Units to, *inter alia*, Related Parties of the Manager or the Trustee must be approved by way of an Extraordinary Resolution of Unitholders.

Focus Eagle owned 129,685,000 Units as at the Latest Practicable Date (comprising 27.2% of the Existing Units) and Ballston owned 58,995,000 Units as at the Latest Practicable Date (comprising approximately 12.4% of the Existing Units). Focus Eagle is a wholly owned subsidiary of Cheung Kong (Holdings) Limited and Ballston is a wholly owned subsidiary of Hutchison Whampoa Limited, which in turn is 49.9% owned by Cheung Kong (Holdings) Limited. Further, as at the Latest Practicable Date, the Manager owned 460,822 Units (comprising approximately 0.09678% of the Existing Units). The Manager is 30.0% indirectly owned by Cheung Kong (Holdings) Limited.

As such, Cheung Kong (Holdings) Limited is deemed to have an interest in 189,140,822 Units as at the Latest Practicable Date (comprising approximately 39.7% of the Existing Units) in Fortune REIT through Focus Eagle, Ballston and the Manager. Cheung Kong (Holdings) Limited is regarded as a Controlling Unitholder, and Focus Eagle, Ballston and the Manager, as associates of Cheung Kong (Holdings) Limited, are "interested persons" within the meaning of the Listing Manual. Hence, the placement of New Units to Focus Eagle under the Private Placement would require the approval of Unitholders by way of an Extraordinary Resolution.

## **5.3 Rationale for the Proposed Placement to Focus Eagle**

The Manager is of the view that Focus Eagle should be permitted to subscribe for New Units under the Private Placement so that its proportionate pre-placement unitholding (in percentage terms) as at the Latest Practicable Date prior to the date of commencement of the Equity Fund Raising is not diluted because of the Equity Fund Raising. The Manager believes that Focus Eagle should not be treated differently from any other Unitholder and should be given the opportunity to apply for additional New Units under the Equity Fund Raising so as to maintain its proportionate pre-placement unitholdings in Fortune REIT since other Unitholders (including other Substantial Unitholders) may apply for additional New Units under the Equity Fund Raising. More importantly, allowing New Units to be placed to Focus Eagle would help to maintain a degree of stability to Fortune REIT as an investment vehicle given the size of its unitholdings. Further, the ability of the Joint Bookrunners and Underwriters to place New Units to Focus Eagle would greatly facilitate the successful completion of the Equity Fund Raising.

## **6. PROPOSED FEE SUPPLEMENT TO THE TRUST DEED**

### **6.1 Trust Deed Provisions Relating to the Manager's Base and Acquisition Fee**

The Trust Deed entitles the Manager to receive a Base Fee of 0.3% of the Property Values. The Trust Deed also entitles the Manager to receive an Acquisition Fee of 1.0% of the acquisition price of any property (save for the Existing Properties which form the initial property portfolio of Fortune REIT) acquired directly or indirectly by Fortune REIT. Except for the amount of the Base Fee referable to the Existing Properties for a period of five years from the initial listing of Fortune REIT on the SGX-ST, the Trust Deed currently stipulates that the Base Fee and the Acquisition Fee are to be paid entirely in cash.

### **6.2 Proposed Supplement to the Trust Deed**

The Manager proposes to supplement the Trust Deed in order to provide that the Manager may irrevocably elect to receive the Base Fee in the form of Units and/or cash. The Manager also proposes to supplement the Trust Deed in order to provide that, in respect of the Properties and each additional property which may be acquired by Fortune REIT in the future, the Manager may irrevocably elect to receive the Acquisition Fee for each such property in the form of Units and/or cash. Should the Manager elect to receive Units in payment of its Base Fee, such Units are to be issued at the 10 day Volume Weighted Average Price. Should the Manager elect to receive Units in payment of its Acquisition Fee, such Units are to be issued at the same price as that for the issue of new Units under an equity fund raising relating to an acquisition, or, if there is no such equity fund raising, at the 10-day Volume Weighted Average Price.

### **6.3 Rationale for the Fee Supplement**

The Manager believes that the ability to choose the form of payment of the Acquisition Fee will give it flexibility in structuring the Acquisitions and future acquisitions of properties by Fortune REIT to achieve optimal returns for Unitholders.

To the extent that the Manager chooses to receive the Base Fee and the Acquisition Fee in Units, the Manager's interests will become further aligned with those of Unitholders.

## **7. PROPOSED ISSUE PRICE SUPPLEMENT TO THE TRUST DEED**

### **7.1 Different Method for Determination of the Issue Price for Consideration Units and the Issue Price for New Units under an Equity Fund Raising Exercise**

Clause 5.2.3 of the Trust Deed currently states that, for so long as Fortune REIT is listed, the Manager may issue Units on any business day at the 10-day Volume Weighted Average Price. Unless the Issue Price Supplement is approved by Unitholders, Clause 5.2.3 will be applicable to the proposed issue of Consideration Units in payment of the Units component of the purchase price of any future acquisitions.

In contrast, Clause 5.2.6 of the Trust Deed provides that, in respect of an issue of new Units other than by way of a rights issue offered on a *pro rata* basis to all existing Unitholders (such as the issue of Consideration Units for future acquisitions), the issue price of such new Units must not reflect more than a 5.0% discount to the volume weighted average price for trades done for a full Market Day on the day the placement agreement relating to such issue is signed or, if trading in the Units is not available for a full Market Day, for the preceding Market Day up to the time such a placement agreement is signed.

### **7.2 Rationale for the Issue Price Supplement**

As part of its investment strategy, Fortune REIT may acquire further properties in the future and may fund these acquisitions with cash, by the issuance of Consideration Units or a combination of both, in varying proportions. In the event that Fortune REIT elects to issue Consideration Units to fully or partially fund a future acquisition, the prescribed formula under the Trust Deed for determining the issue price of the Consideration Units is different from the prescribed formula for determining the issue price for new Units under an equity fund raising exercise.

Given the general inherent unpredictability of stock prices on any securities exchange, the 10-day Volume Weighted Average Price is likely to differ from the issue price under Clause 5.2.6 of the Trust Deed. To avoid the incongruity of such a difference and given that the Consideration Units may be issued for the purpose of funding future property acquisitions, the Manager proposes to supplement the Trust Deed with the Issue Price Supplement.

### **7.3 Proposed Supplement to the Trust Deed**

Clause 28 of the Trust Deed provides that no alteration shall be made to the provisions of the Trust Deed without the sanction of an Extraordinary Resolution of Unitholders. To that end, the Manager seeks Unitholders' approval to supplement the Trust Deed with the Issue Price Supplement.

(See **Appendix 12** of this Circular for the proposed form of the Issue Price Supplement.)

## **8. RECOMMENDATIONS**

### **8.1 On the Acquisitions**

Based on the opinion of the IFA (as set out in the IFA Letter in **Appendix 11** of this Circular), Mr Lim Lee Meng, Mr Cheng Moses Mo Chi and Mrs Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei), being the Independent Directors, believe that each of the Acquisitions is based on normal commercial terms and would not be prejudicial to the interests of Fortune REIT or its Unitholders. Accordingly, the Independent Directors recommend that Unitholders vote at the EGM in favour of the resolution to approve each of the Acquisitions.

### **8.2 On the Issue of New Units**

Given the current conditions in the Singapore stock market and the borrowing limits imposed by the MAS on property funds such as Fortune REIT, the Manager considers that the proposed issue of such number of New Units as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds as an efficient method of financing the Acquisitions. Accordingly, the Manager recommends that Unitholders vote at the EGM in favour of the resolution to issue New Units as to raise gross proceeds of up to HK\$1,986.1 million for the purpose of the Equity Fund Raising.

### **8.3 On the Placement to Focus Eagle**

Having regard to the rationale for the placement of New Units to Focus Eagle set out in paragraph 5.3 above, the Independent Directors are of the opinion that such a placement of New Units to Focus Eagle would be on normal commercial terms and would not be prejudicial to the interests of Fortune REIT or its Unitholders. For the reasons above, the Independent Directors recommend that Unitholders vote in favour of the resolution which will be proposed at the EGM to permit the placement of New Units under the Private Placement to Focus Eagle.

### **8.4 On Supplementing the Trust Deed with the Fee Supplement**

The ability to choose the form of payment of the Acquisition Fee will give the Manager more flexibility in structuring the Acquisitions and future acquisitions of properties by Fortune REIT to achieve optimal returns for Unitholders. To the extent that the Manager chooses to receive the Base Fee and the Acquisition Fee in Units, the Manager's interests will become further aligned with those of Unitholders.

As such, the Independent Directors recommend that Unitholders vote at the EGM in favour of the resolution to supplement the Trust Deed with the Fee Supplement.

### **8.5 On Supplementing the Trust Deed with the Issue Price Supplement**

If an issue of new Units as consideration for the purchase of a property takes place in conjunction with an issue of new Units (other than by way of a rights issue offered on a *pro rata* basis) under an equity fund raising exercise, the different methods prescribed by the Trust Deed for ascertaining the issue prices of the new Units in each of those cases is likely to result in two different issue prices for the new Units.

To avoid such an incongruity, the Manager recommend that Unitholders vote at the EGM in favour of the resolution to supplement the Trust Deed with the Issue Price Supplement so that the Manager may, in future, issue the Consideration Units at the same price as that for the issue of new Units under an equity fund raising exercise.

## **9. EXTRAORDINARY GENERAL MEETING**

The EGM will be held at 2.30 p.m. on 1 June 2005 at One Raffles Boulevard, Meeting Room 308, Level 3, Suntec Singapore International Convention & Exhibition Centre, Singapore 039593, for the purpose of considering and, if thought fit, passing with or without modification, the resolutions set out in the Notice of EGM, which is set out on pages 202 to 205 of this Circular.

A Depositor shall not be regarded as a Unitholder entitled to attend the EGM and to speak and vote unless he is shown to have Units entered against his name in the Depository Register, as certified by CDP as at 48 hours before the EGM.

Unitholders should note that each of the resolutions relating to the Acquisitions is not subject to, or contingent upon, any other resolutions. The resolutions relating to the Fee Supplement and the Issue Price Supplement are not subject to, or contingent upon, one another or any of the other resolutions. The resolutions relating to the proposed issue of New Units is subject to and contingent upon the passing of any of the resolutions relating to the Acquisitions and each of the resolutions relating to the Acquisitions is subject to and contingent upon the passing of the resolution relating to the proposed issue of the New Units. The proposed placement of New Units to Focus Eagle is subject to and contingent upon the passing of the resolution relating to the proposed issue of New Units.

## **10. PROHIBITION ON VOTING**

Focus Eagle is prohibited from voting on the resolutions to permit the placement of New Units to itself by the Joint Bookrunners and Underwriters by Rule 812(2) of the Listing Manual. In addition, its associates (which include the Manager) are restricted from voting on these resolutions. As associates of Cheung Kong (Holdings) Limited (a Controlling Unitholder), Focus Eagle, and its associates (including the Manager), are also prohibited from voting on the resolutions relating to the Acquisitions.

In addition, Rule 919 of the Listing Manual prohibits Unitholders interested in a resolution and their associates (as defined in the Listing Manual) from voting on the resolution at the EGM. As Focus Eagle is interested in the resolutions relating to the issue of New Units under the Equity Fund Raising (by reason of its interest in relation to the proposed placement of New Units to itself under the Private Placement) and the placement of New Units to itself, it and its associates (including the Manager) are prohibited from voting on those resolutions.

Further, under Clause 5.2.6(c) of the Trust Deed, each of the following persons is prohibited from voting on the resolutions to approve the placement of New Units under the Private Placement to Focus Eagle:

- (i) Focus Eagle;
- (ii) the Related Parties of Focus Eagle; and
- (iii) the directors and immediate family members of directors of the persons referred to in (i) and (ii) above.

Given that the Fee Supplement directly affects the form of payment receivable by the Manager in respect of its Base Fee and Acquisition Fee, the Manager and its connected persons (which include Focus Eagle) are prohibited under the Trust Deed from voting on the resolution relating to the Fee Supplement.

## **11. ACTION TO BE TAKEN BY UNITHOLDERS**

You will find enclosed in this Circular the Notice of EGM and a Proxy Form.

If a Unitholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the enclosed Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Manager at 9 Temasek Boulevard, #09-01 Suntec Tower 2, Singapore 038989 not later than 2.30 p.m. on 30 May 2005, being 48 hours before the time fixed for the EGM. The completion and return of the Proxy Form by a Unitholder will not prevent him from attending and voting in person if he so wishes.

Persons who have an interest in the approval of the Acquisitions or the placement of Units to Focus Eagle (which would include all the companies within the Cheung Kong Group) or the Fee Supplement must decline to accept appointment as proxies unless the Unitholder concerned has specific instructions in his Proxy Form as to the manner in which his votes are to be cast in respect of the relevant resolutions in the Notice of EGM.

## **12. DIRECTORS' RESPONSIBILITY STATEMENTS**

The Directors collectively and individually accept 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, the facts stated and opinions expressed in this Circular are fair and accurate in all material respects as at the date of this Circular and there are no material facts the omission of which would make any statement in this Circular misleading in any material respect. Where information has been extracted or reproduced from published or otherwise publicly available sources, the sole responsibility of the Directors has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this Circular.

The forecast financial information set out in paragraph 2.2.1 above and in **Appendix 2** of this Circular have been stated by the Directors after due and careful enquiry.

## **13. CONSENTS**

Each of the Reviewer of the Profit Forecast, the Independent Accountants, the IFA, the Independent Valuers and the Independent Property Consultant has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and, respectively, the DTCF's Statement, the Independent Accountant's Report on the Profit Forecast, the IFA Letter, the reports from Chesterton (the Chesterton Summary Valuation Report, the Chesterton Individual Property Summary Report and the Chesterton Summary City One Shatin Property Asset Enhancement Report), the Vigers Appraisal Summary Valuation Report from Vigers Appraisal and the Retail Market Overview by the Independent Property Consultant, and all references thereto, in the form and context in which they are included in this Circular.

## **14. DOCUMENTS ON DISPLAY**

Copies of the following documents are available for inspection during normal business hours at the registered office of the Manager at 9 Temasek Boulevard, #09-01 Suntec Tower 2, Singapore 038989 from the date of this Circular up to and including the date falling three months after the date of this Circular:

- (i) the Sale and Purchase Agreements and the disclosure letters under the Sale and Purchase Agreements relating to Mightypattern Limited and Waldorf Realty Limited;
- (ii) the full valuation report dated 10 May 2005 on the Properties issued by Chesterton stating the valuation of the Properties as at 31 January 2005;
- (iii) the full valuation report dated 10 May 2005 on the Properties issued by Vigers Appraisal stating the valuation of the Properties as at 31 January 2005;
- (iv) the Chesterton Summary Valuation Report;

- (v) the Vigers Appraisal Summary Valuation Report;
- (vi) the Retail Market Overview and the full report relating thereto by the Independent Property Consultant;
- (vii) the building survey reports on the Properties by Vigers Building Consultancy Ltd;
- (viii) DCTF's Report on the Profit Forecast;
- (ix) the Independent Accountants' Report on the Profit Forecast;
- (x) the Audited Financial Statements;
- (xi) the IFA Letter;
- (xii) the valuation report on the Existing Properties (each dated 10 May 2005) issued by Chesterton;
- (xiii) the Chesterton Individual Property Summary Report and Chesterton Asset Enhancement Report dated 10 May 2005 on City One Shatin Property issued by Chesterton;
- (xiv) the valuation report on the Properties (dated 22 March 2005) issued by Chesterton stating the valuation of the Properties as at 31 December 2004; and
- (xv) the valuation report on the Properties (dated 22 March 2005) issued by Vigers Appraisal stating the valuation of the Properties as at 31 December 2004; and

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.

Yours faithfully  
ARA ASSET MANAGEMENT (SINGAPORE) LIMITED  
(as manager of Fortune Real Estate Investment Trust)

Lim Hwee Chiang  
Director

## GLOSSARY

In this Circular, the following definitions apply throughout unless otherwise stated:

<i>“10-Day Volume Weighted Average Price”</i>	:	The volume weighted average traded price for a Unit for all trades on the SGX-ST in the ordinary course of trading thereon for the period of 10 business days immediately preceding the relevant business day
<i>“Acquisitions”</i>	:	The proposed acquisitions by the Trustee of the Properties
<i>“Acquisition Fee”</i>	:	The acquisition fee which the Manager will be entitled under Clause 15.2.1(i) of the Trust Deed to receive from Fortune REIT upon completion of the Acquisitions
<i>“Acquisition Fee Supplement”</i>	:	The proposed supplement to the Trust Deed to allow the Manager to elect to receive the Acquisition Fee in respect of the Properties and each additional property which may be acquired by Fortune REIT in the future in the form of cash and/or Units
<i>“Aggregate Purchase Consideration”</i>	:	The total purchase consideration of HK\$3,439.0 million for the Properties (before adjustment for the consolidated net current assets/current liabilities of each of Mightypattern Limited and Waldorf Realty Limited respectively)
<i>“ATM”</i>	:	Automated teller machine
<i>“ATM Offering”</i>	:	The proposed offering of New Units at the Issue Price to retail investors in Singapore through the ATMs of DBS Bank (including the ATMs of POSB) on a “first-come, first-served” basis
<i>“Audited Financial Statements”</i>	:	The audited financial statements of Fortune REIT for the financial year ended 31 December 2004
<i>“Ballston”</i>	:	Ballston Profits Limited
<i>“Base Fee”</i>	:	The base fee which the Manager is entitled under Clause 15.1.1 of the Trust Deed to receive from Fortune REIT
<i>“Base Fee Supplement”</i>	:	The proposed supplement to the Trust Deed to allow the Manager to elect to receive its Base Fee in the form of Units and/or cash
<i>“Base Rental Income”</i>	:	Consists of rental income due from tenancies but excludes Turnover Rent
<i>“BVI”</i>	:	British Virgin Islands
<i>“CDP”</i>	:	The Central Depository (Pte) Limited
<i>“Centre de Laguna Property”</i>	:	The property comprising the commercial area on the Ground Floor of the commercial development known as “Centre de Laguna”, and the kindergarten of Blocks 32 to 38 of Laguna City located at the junction of Cha Kwo Ling Road and Sin Fat Road, Kowloon, Hong Kong
<i>“CEPA”</i>	:	Closer Economic Partnership Arrangement

<i>“Charge-out Collections”</i>	:	Consists of air-conditioning charges, management fees, promotional charges, government rates, government rents (where applicable), utility charges, cleaning and other charges payable by the tenants and licensees
<i>“Chesterton”</i>	:	Chesterton Petty Ltd
<i>“Chesterton Summary Valuation Report”</i>	:	The summary of the valuation report dated 10 May 2005 on the Properties issued by Chesterton, attached as <b>Appendix 5</b> of this Circular
<i>“Cheung Kong Group”</i>	:	Cheung Kong (Holdings) Limited and its subsidiaries, and the term “member of the Cheung Kong Group” shall be construed accordingly
<i>“City One Shatin Property”</i>	:	<p>The property comprising the following commercial portion and car parking spaces at City One Shatin, Shatin, New Territories, Hong Kong:</p> <ul style="list-style-type: none"> <li>(a) the free standing commercial podium known as Ngan Shing Commercial Centre (Commercial Block A) on the Ground Floor, 4th Floor and the Roof;</li> <li>(b) the free standing commercial podium known as City One Plaza (Commercial Block B) on the Ground Floor, 1st Floor and portion of the Roof, Roof Garden, Centre Garden and kiosks thereof;</li> <li>(c) the wet market and kindergarten below residential tower blocks 34–36 on the Ground Floor only;</li> <li>(d) various single shops and non-domestic units dispersed throughout the development on the Ground Floor of 12 individual residential tower blocks; and</li> <li>(e) 986 car parking spaces within the development of which 314 car parking spaces are located on the 1st Floor of Commercial Block A, 671 car parking spaces on the 2nd and 3rd Floors of City One Plaza (Commercial Block B) and a car parking space on the 1st Floor of the residential tower blocks 34–36 of the development</li> </ul>
<i>“Completion”</i>	:	The completion of the sale and purchase of the entire issued share capital of Mightypattern Limited, the entire issued share capital of Waldorf Realty Limited, the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and/or the Rhine Garden Property pursuant to the respective Sale and Purchase Agreements
<i>“Controlling Unitholder”</i>	:	<p>A person who:</p> <ul style="list-style-type: none"> <li>(a) holds directly or indirectly, 15.0% or more of the nominal amount of Units; or</li> <li>(b) in fact exercises control over Fortune REIT,</li> </ul> <p>as defined in the Listing Manual</p>
<i>“DBS Bank”</i>	:	DBS Bank Ltd

<i>“Deed of Mutual Covenant”</i>	:	In respect of a Property, the deed which: (a) defines and regulates the rights, interests and obligations of the owners and the manager of the development (of which the relevant Property forms part); and (b) sets out provisions relating, <i>inter alia</i> , to the management and maintenance of such development
<i>“Deposited Property”</i>	:	The value of all the gross assets of Fortune REIT
<i>“DPU”</i>	:	Distribution per Unit
<i>“DTCF’s Statement”</i>	:	The Deloitte & Touche Corporate Finance Pte Ltd’s Report on the Profit Forecast as set out in <b>Appendix 3</b> of this Circular
<i>“EGM”</i>	:	The extraordinary meeting of Unitholders to be held on 1 June 2005 at 2.30 p.m. to approve the matters set out in the Notice of EGM on pages 202 to 205 of this Circular
<i>“Equity Fund Raising”</i>	:	The proposed issue of New Units at the Issue Price for placement by the Joint Bookrunners and Underwriters to existing Unitholders and new investors as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds
<i>“Existing Interested Person Transactions”</i>	:	The existing interested person transactions described in <b>Appendix 8</b> to this Circular
<i>“Existing Properties”</i>	:	The Metropolis Mall, Ma On Shan Plaza, The Household Center, Smartland and Jubilee Court Shopping Centre
<i>“Existing Property Companies”</i>	:	The respective property companies which are wholly owned by Fortune REIT and which directly hold the Existing Properties (being Vision Million Limited in relation to The Metropolis Mall, Poko Shine Limited in relation to Ma On Shan Plaza, Art Full Resources Limited in relation to The Household Center, Quick Switch Limited in relation to Smartland and Yee Pang Realty Limited in relation to Jubilee Court Shopping Centre) and each an “Existing Property Company”
<i>“Existing Units”</i>	:	The 476,130,822 outstanding Units as at the date of this Circular
<i>“Extraordinary Resolution”</i>	:	A resolution proposed and passed as such by a majority consisting of 75.0% or more 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
<i>“Facilities”</i>	:	The secured facilities aggregating HK\$2,650.0 million comprising a HK\$2,385.0 million term loan facility and a HK\$265.0 million revolving credit facility, each for a term of five years, arranged or to be arranged by The Hongkong and Shanghai Banking Corporation Limited and DBS Bank
<i>“Fee Supplement”</i>	:	The Base Fee Supplement and the Acquisition Fee Supplement
<i>“Focus Eagle”</i>	:	Focus Eagle Investments Limited
<i>“Fortune Port”</i>	:	Fortune Port Group Limited

<i>“Fortune REIT”</i>	:	Fortune Real Estate Investment Trust
<i>“FRS 102 SBP”</i>	:	FRS 102 — Share Based Payment
<i>“FRS 103 BC”</i>	:	FRS 103 — Business Combination
<i>“GDP”</i>	:	Gross domestic product
<i>“Gearing”</i>	:	The ratio of Fortune REIT’s borrowings to the value of its Deposited Property, adjusted for the distribution of any accrued distributable income
<i>“Government Lease”</i>	:	In respect of each Property, the government lease under which such Property is held from the Government of Hong Kong
<i>“Gross Floor Area” or “GFA”</i>	:	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 ground), 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, refuse 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
<i>“Gross Rentable Area”</i>	:	In respect of a property, the portion of the Gross Floor Area of that property determined by the relevant property company at any given time to be rentable
<i>“Gross Revenue”</i>	:	The aggregate of Base Rental Income, Charge-out Collections and all other income accruing or resulting from the operation of the real estate owned by Fortune REIT including licence fees, Turnover Rent, car parking revenues and other revenues
<i>“HIBOR”</i>	:	Hong Kong Interbank Offer Rate
<i>“HK\$” and “HK cents”</i>	:	Hong Kong Dollars and Hong Kong Cents
<i>“Hong Kong”</i>	:	The Hong Kong Special Administrative Region of the People’s Republic of China
<i>“Independent Accountants”</i>	:	Deloitte & Touche, Certified Public Accountants
<i>“Independent Directors”</i>	:	The independent directors of the Manager
<i>“Independent Financial Adviser” or “IFA”</i>	:	KPMG Corporate Finance Pte Ltd
<i>“Independent Property Consultant”</i>	:	Savills (Hong Kong) Limited

<i>“Independent Valuers”</i>	:	Chesteron and Vigers Appraisal (each an <b>“Independent Valuer”</b> )
<i>“Issue Price”</i>	:	The issue price per New Unit under the Equity Fund Raising, which will be agreed between the Manager and the Joint Bookrunners and Underwriters closer to the date of commencement of the Equity Fund Raising
<i>“Issue Price Supplement”</i>	:	The proposed supplement to the Trust Deed to allow the Manager to issue Consideration Units at the same issue price per Unit as that of new Units issued under an equity fund raising exercise
<i>“Joint Bookrunners and Underwriters”</i>	:	DBS Bank, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan (S.E.A.) Limited and UBS AG, acting through its business group UBS Investment Bank
<i>“KCRC”</i>	:	Kowloon-Canton Railway Corporation, a statutory corporation established under the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) and wholly-owned by the Government of Hong Kong
<i>“Latest Practicable Date”</i>	:	10 May 2005, being the latest practicable date prior to the printing of this Circular
<i>“Lido Garden Property”</i>	:	The property comprising 12 shop units on a portion on the Ground Floor at the northern fringe of the side boundary of the commercial/residential development called “Lido Garden” located at No. 41–63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong
<i>“Listing Manual”</i>	:	The Listing Manual of the SGX-ST
<i>“Manager”</i>	:	ARA Asset Management (Singapore) Limited, as manager of Fortune REIT
<i>“Market Day”</i>	:	A day on which the SGX-ST is open for trading in securities
<i>“MAS”</i>	:	Monetary Authority of Singapore
<i>“MTR Station”</i>	:	A station on the Mass Transit Railway, which is operated by the MTR Corporation Limited
<i>“n.a.”</i>	:	Not applicable
<i>“NAV”</i>	:	Net asset value
<i>“New Units”</i>	:	The new Units proposed to be issued under the Equity Fund Raising by way of the Preferential Offering, the ATM Offering and the Private Placement
<i>“NTA”</i>	:	Net tangible assets
<i>“Net Property Income”</i>	:	The aggregate of Gross Revenue less Property Operating Expenses
<i>“New Territories”</i>	:	The area being north of Boundary Street to the Shenzhen River and 235 islands

<i>“Ordinary Resolution”</i>	:	A resolution proposed and passed as such by a majority consisting of 50.0% or more of the total number of votes cast for and against such resolution at a meeting of Unitholders convened in accordance with the provisions of the Trust Deed
<i>“Original Vendors”</i>	:	In relation to each Property (other than the City One Shatin Property and the Waldorf Garden Property), the vendors which sold to Fortune Port the relevant Property and in the case of the City One Shatin Property, the vendors which sold to Fortune Port the entire issued share capital of Mightypattern Limited, and in the case of the Waldorf Garden Property, the vendors which sold to Fortune Port the entire issued share capital of Waldorf Realty Limited
<i>“Performance Fee”</i>	:	The annual performance fee which the Manager is entitled under Clause 15.1.2 of the Trust Deed
<i>“POSB”</i>	:	Post Office Savings Bank
<i>“Preferential Offering”</i>	:	The proposed preferential offering by the Joint Bookrunners and Underwriters comprising approximately 47.7 million New Units to the Singapore Registered Unitholders on a non-renounceable basis of one New Unit for every 10 of the Existing Units held as at the Preferential Offering Books Closure Date (fractions of a Unit to be disregarded) and subject to the rounding mechanism, as set out in paragraphs 4.1 and 4.2 above
<i>“Preferential Offering Books Closure Date”</i>	:	The time and date on which the Transfer Books and Register of Unitholders of Fortune REIT will be closed to determine the provisional allocations of Singapore Registered Unitholders under the Preferential Offering, currently expected to be on 13 June 2005 at 5.00 p.m.
<i>“Private Placement”</i>	:	The proposed private placement of New Units at the Issue Price by the Joint Bookrunners and Underwriters to institutional and other investors as part of the Equity Fund Raising
<i>“Pro Forma Completion Balance Sheet”</i>	:	The pro forma completion balance sheet for each Target Company to be prepared for the purposes of Completion
<i>“Properties”</i>	:	The six properties comprising of the City One Shatin Property, the Waldorf Garden Property, the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property (each a <b>“Property”</b> )
<i>“Property Companies”</i>	:	The respective direct owners of the Properties (being Million Nice Development Limited in relation to the City One Shatin Property, Waldorf Realty Limited in relation to the Waldorf Garden Property and, the special purpose companies to be established by Fortune REIT for the purpose of holding the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property on Completion) (each a <b>“Property Company”</b> )
<i>“Property Funds Guidelines”</i>	:	The guidelines for real estate investment trusts issued by the MAS as Appendix 2 of Code on Collective Investment Schemes issued by the MAS

<i>“Property Manager”</i>	:	Goodwell-Fortune Property Services Limited
<i>“Property Operating Expenses”</i>	:	The aggregate of all costs and expenses incurred by the property holding companies of Fortune REIT in the operation, maintenance, management and marketing of the properties of Fortune REIT including property management fees, government rents and government rates, Manager’s Performance Fee and other property operating expenses
<i>“Property Values”</i>	:	The value of all real estate properties of Fortune REIT whether directly held by the Trustee or indirectly held by the Trustee through a property holding company
<i>“Purchase Consideration”</i>	:	The purchase consideration for each Property
<i>“Registrar General (Land Officer)”</i>	:	An officer appointed under the Registrar General (Establishment) Ordinance (Chapter 100 of the Laws of Hong Kong). The Registrar General (Establishment) Ordinance was repealed by the Registrar General (Establishment) (Transfer of Functions and Repeal) Ordinance (Chapter 439 of the Laws of Hong Kong), and the functions and power of the former Registrar General (Land Officer) have been transferred to the “Director of Lands” who is the director of the Lands Department of Hong Kong
<i>“Related Party”</i>	:	Refers to an “interested person” (as defined in the Listing Manual) and/or, as the case may be, an “interested party” (as defined in the Property Funds Guidelines)
<i>“Related Tenancy and Licence Agreements”</i>	:	The tenancy agreements and licence agreements entered into by certain entities within the Cheung Kong Group
<i>“Rescheduled Distribution”</i>	:	The proposed distribution of Fortune REIT’s tax-exempt income for the period from 1 January 2005 to the day immediately prior to the date the New Units are issued, in lieu of the Scheduled Distribution
<i>“Restricted Places”</i>	:	<ul style="list-style-type: none"> <li>(a) The Directors of the Manager, and Substantial Unitholders;</li> <li>(b) The spouse, children, adopted children, step-children, siblings and parents of (i) the Directors of the Manager and (ii) Substantial Unitholders;</li> <li>(c) Substantial shareholders, related companies (as defined in Section 6 of the Companies Act, Chapter 50 of Singapore), associated companies and sister companies of the Substantial Unitholders;</li> <li>(d) Corporations in which the Directors of the Manager and the Substantial Unitholders have an aggregate interest of at least 10.0%; and</li> <li>(e) Any person who, in the opinion of the SGX-ST, falls within categories (a) to (d)</li> </ul>
<i>“Retail Market Overview”</i>	:	The retail property market overview report by the Independent Property Consultant
<i>“Reviewer of the Profit Forecast”</i>	:	Deloitte & Touche Corporate Finance Pte Ltd

<i>“Rhine Garden Property”</i>	:	The property comprising various retail portions on the Ground Floor of the 3-storey podium of a commercial/residential development with ancillary car parking and recreational facilities known as “Rhine Garden” located at No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong
<i>“Sale and Purchase Agreements”</i>	:	The conditional sale and purchase agreements in relation to the acquisition of the Properties or the Target Company Shares (as the case may be) by the Trustee (as trustee of Fortune REIT) from Fortune Port
<i>“SARS”</i>	:	Severe Acute Respiratory Syndrome
<i>“Scheduled Distribution”</i>	:	The original scheduled distribution of Fortune REIT’s tax-exempt income for the period from 1 January 2005 to 30 June 2005
<i>“SGX-ST”</i>	:	Singapore Exchange Securities Trading Limited
<i>“Singapore Registered Unitholders”</i>	:	Unitholders as at the Preferential Offering Books Closure Date other than those whose Unitholders registered addresses with CDP are outside Singapore and who have not, at least five Market Days prior to the Preferential Offering Books Closure Date, provided CDP with addresses in Singapore for the service of notices and documents
<i>“Substantial Unitholder”</i>	:	A Unitholder with an interest in one or more Units constituting not less than 5.0% of all outstanding Units
<i>“sq ft”</i>	:	Square feet
<i>“sq m”</i>	:	Square metres
<i>“S\$”</i>	:	Singapore Dollars
<i>“Target Company”</i>	:	In relation to the acquisition of the City One Shatin Property, Mightypattern Limited and in relation to the acquisition of the Waldorf Garden Property, Waldorf Realty Limited
<i>“Target Company Shares”</i>	:	The entire issued share capital of a Target Company
<i>“Tax Rulings”</i>	:	The tax rulings dated 10 June 2003 and 11 April 2005 issued by the Singapore Ministry of Finance on the taxation of Fortune REIT and Unitholders
<i>“Trust Deed”</i>	:	The trust deed dated 4 July 2003 entered into between the Trustee (as trustee of Fortune REIT) and the Manager constituting Fortune REIT
<i>“Trustee”</i>	:	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT
<i>“Tsing Yi Square Property”</i>	:	The property comprising 48 shops on the Ground Floor, 29 shops on the 1st Floor and 27 car parking spaces on the basement of a commercial/residential development known as “Tsing Yi Garden” located at No. 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong

“Turnover Rent”	:	Rent calculated with reference to a fixed percentage of a tenant’s monthly sales turnover
“Unitholder”	:	A Depositor whose securities account with CDP is credited with Unit(s)
“Unit”	:	A unit representing an undivided interest in Fortune REIT
“US\$”	:	United States dollars
“Vigers Appraisal”	:	Vigers Appraisal & Consulting Limited
“Vigers Appraisal Summary Valuation Report”	:	The summary of the valuation report dated 10 May 2005 on the Properties issued by Vigers Appraisal, attached as <b>Appendix 6</b> of this Circular
“Waldorf Garden Property”	:	The property comprising the following shops and car parking spaces located at No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong: <ul style="list-style-type: none"> <li>(a) a retail floor on Level 3 of a 4-storey commercial/parking/recreational podium of a residential development known as “Waldorf Garden”;</li> <li>(b) 73 car parking spaces with two car parking spaces located on Level 1 of the podium, 67 car parking spaces on Level 2 and four lorry parking spaces on Level 1;</li> <li>(c) Bicycle Parking Area on Level 1; and</li> <li>(d) Bicycle Parking Area on Level 2</li> </ul>
“%”	:	Per centum or percentage

The terms “Depositor” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act, Chapter 50 of Singapore.

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 Singapore time unless otherwise stated.

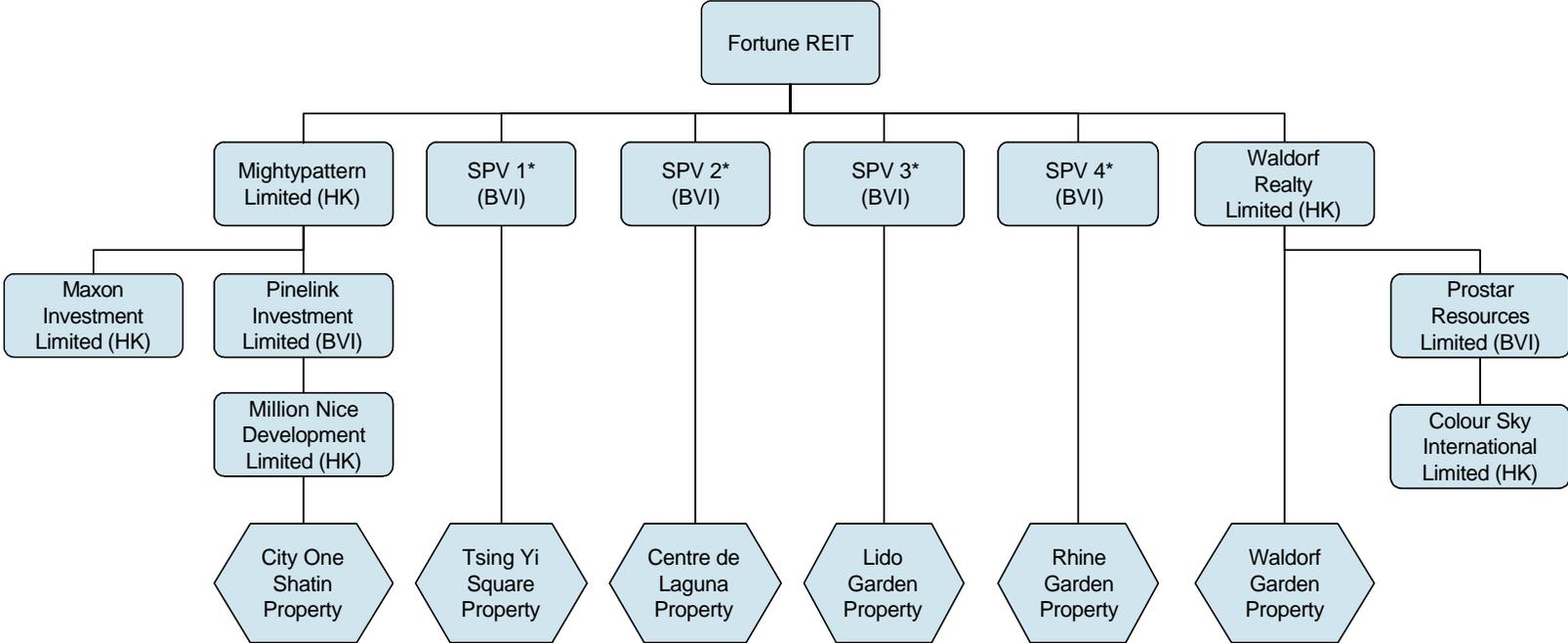
The exchange rates used in this Circular are for reference only. No representation is made that any Hong Kong dollar amounts could have been or could be converted into Singapore dollar amounts at any of the exchange rates used in this Circular, at any other rate or at all.

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.

**THE PROPERTIES AND THE EXISTING PROPERTIES**

Selected information in respect of the Properties and the Existing Properties are set out herein.

Each of the Property Companies and (if applicable) their intermediate holding companies are special purpose companies whose primary purpose is to hold or own the relevant Property, save for Mightypattern Limited which has another two wholly-owned subsidiaries, Pinelink Investment Limited (incorporated in the British Virgin Islands) and Maxon Investment Limited (incorporated in Hong Kong), which are dormant companies with no operating businesses, and save for Waldorf Realty Limited which has another two wholly-owned subsidiaries, Prostar Resources Limited (incorporated in the British Virgin Islands), and Colour Sky International Limited (incorporated in Hong Kong), which are dormant companies with no operating business. The following chart summarises the relationship between each of the Property Companies and Fortune REIT after completion of the Acquisitions:



73

\* New SPVs to be set up by Fortune REIT to acquire properties

LOCATION OF THE PROPERTIES AND THE EXISTING PROPERTIES

Waldorf Garden Property



Lido Garden Property



Rhine Garden Property



City One Shatin Property



Tsing Yi Square Property



Centre de Laguna Property



### (A) The City One Shatin Property

The City One Shatin Property comprises the following commercial portions and car parking spaces at the City One Shatin Property, Shatin, New Territories, Hong Kong:

- the free standing commercial podium known as Ngan Shing Commercial Centre (Commercial Block A) on the Ground Floor, 4th Floor and the Roof;
- the free standing commercial podium known as City One Plaza (Commercial Block B) on the Ground Floor, 1st Floor and portion of the Roof, Roof Garden, Centre Garden and Kiosks thereof;
- the wet market and kindergarten below residential tower blocks 34–36 on the Ground Floor only;
- various single shops and non-domestic units dispersed throughout the development on the Ground Floor of 12 individual residential tower blocks; and
- 986 car parking spaces within the development of which 314 car parking spaces are located on the 1st Floor of Commercial Block A, 671 car parking spaces on the 2nd and 3rd Floors of City One Plaza (Commercial Block B) and a car parking space on the 1st Floor of the residential tower blocks 34–36 of the development.

The City One Shatin Property is located in Shatin, New Territories, south of the Shing Mun River.

The City One Shatin Property is part of the 10,642 unit City One Shatin residential development completed in the 1980's and is one of the largest residential developments in Hong Kong. Besides serving the needs of the local residents within City One Shatin, its catchment population also includes students and workers.

The City One Shatin Property is easily accessible to shoppers via private and public transportation, namely, buses, taxis and franchised buses. Further, it is strategically located near Ma On Shan Rail's City One station which commenced its operations in December 2004. It is also in close proximity to the Shatin station on the East Rail of KCRC.

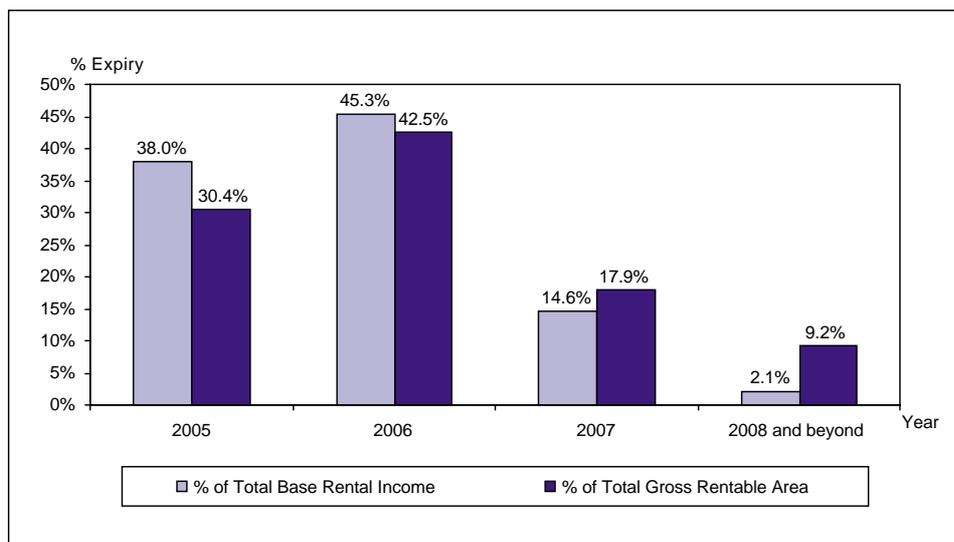
#### Information about the City One Shatin Property

The following table sets out selected information about the City One Shatin Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	414,469 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	414,469 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	252
<b>Car parking spaces</b>	986
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	95.4%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$2,760.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$2,680.0 million
<b>Lower of the Two Valuations</b>	HK\$2,680.0 million

### Tenancy Expiry Profile for the City One Shatin Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the City One Shatin Property by Base Rental Income and Gross Rentable Area:

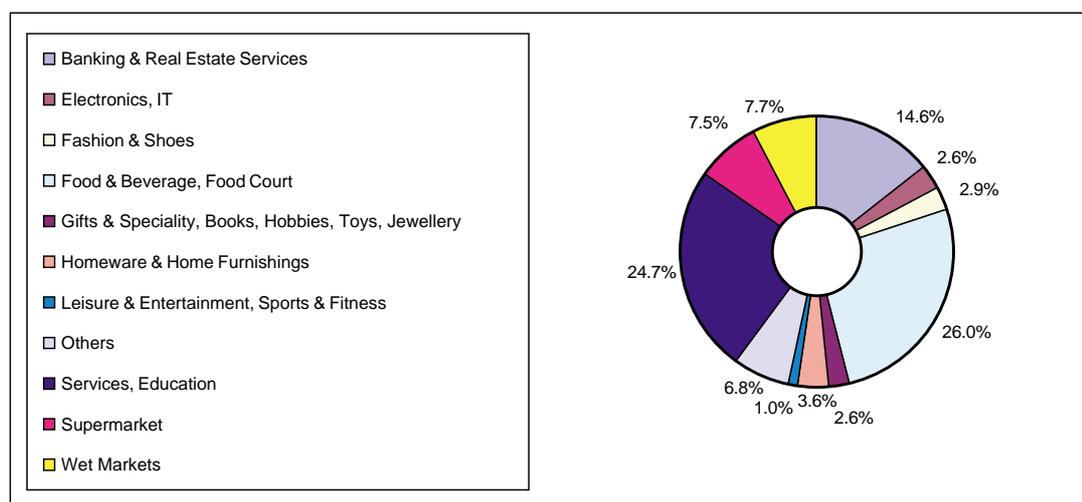


The tenancy expiry profile for the City One Shatin Property shows the highest percentage of tenancies expiring in 2005 and 2006. This is due to the fact that tenancies are, on average, contracted for a term of two to three years.

### Trade Sub-Sector Analysis for the City One Shatin Property (as at 31 December 2004)

#### (a) By Base Rental Income

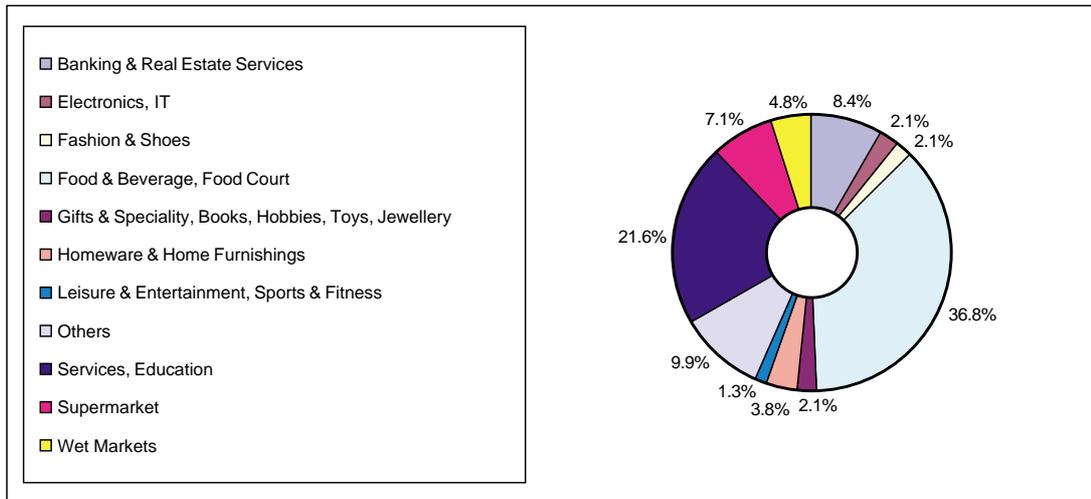
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the City One Shatin Property:



The Base Rental Income of the City One Shatin Property is well diversified in terms of trade sub-sectors, with no single trade sub-sector accounting for more than 26.0% of the Property's total Base Rental Income. The largest trade sub-sector was the Food & Beverage, Food Court, which accounted for 26.0% of the Property's total Base Rental Income, followed by the Services, Education (24.7%) and the Banking & Real Estate Services (14.6%).

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the City One Shatin Property:



The City One Shatin Property's Gross Rentable Area is well diversified in terms of trade sub-sectors, with the Food & Beverage, Food Court as the largest trade sub-sector, followed by the other trade sub-sectors mentioned in part (a) above.

## Top Ten Tenants of the City One Shatin Property by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the City One Shatin Property by Base Rental Income:

Tenant	Trade sub-sector	Expiry Date <sup>(1)</sup>	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(2)</sup>
Park'N Shop <sup>(3)</sup>	Supermarkets	Jul 05 Nov 06	11,804 13,000	6.0	6.8
Bank of China (Hong Kong) <sup>(4)</sup>	Banking & Real Estate Services	Oct 05 Oct 05	5,853 1,790	1.8	3.5
McDonald's <sup>(5)</sup>	Food & Beverage, Food Court	Jan 06	7,773	1.9	3.4
Cambridge Nursing Home (City One) Limited	Services, Education	Apr 06	25,448	6.1	3.1
Catiline Anglo-Chinese Kindergarten <sup>(6)</sup>	Services, Education	Jul 05 Jul 07	2,422 16,345	4.5	2.8
7-Eleven <sup>(7)</sup>	Services, Education	Nov 05 Mar 07	2,650 3,188	1.4	2.5
Fook Choi Seafood Restaurant <sup>(8)</sup>	Food & Beverage, Food Court	Apr 08	33,220	8.0	2.2
Watson's <sup>(3)</sup>	Services, Education	Feb 05 <sup>(9)</sup>	4,802	1.2	1.9
Mannings <sup>(10)</sup>	Services, Education	Jan 05 <sup>(11)</sup>	4,996	1.2	1.9
Midland Realty <sup>(12)</sup>	Banking & Real Estate Services	May 06 Jul 06	605 424	0.2	1.6
<b>Ten Largest Tenants by Total Base Rental Income</b>			134,320	32.3	29.7
Other Tenants			260,995	63.1	70.3
Vacant space			19,154	4.6	—
<b>Total</b>			414,469	100.0	100.0

### Notes:

- (1) Some of the tenants above have signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for such tenants.
- (2) Based on each tenant's percentage contribution to Base Rental Income of the City One Shatin Property for the month ended 31 December 2004.
- (3) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (4) The tenant under the tenancy agreement is Bank of China (HK) Limited.
- (5) The tenant under the tenancy agreement is McDonald's Restaurants (HK) Limited.
- (6) The tenant under the tenancy agreement is Greenie Education Services Company Limited.
- (7) The tenant under the tenancy agreement is The Dairy Farm Company Limited.
- (8) The tenant under the tenancy agreement is Wellking Corporation Limited.
- (9) The tenant has exercised an option to renew for further term of three years at open market rent on 20 December 2004.
- (10) The tenant under the tenancy agreement is The Dairy Farm Company Limited.
- (11) The tenancy has renewed for a further term of three years at open market rent on 30 December 2004.
- (12) The tenant under the tenancy agreement is Midland Property Leasing Limited.

As at 31 December 2004, the top ten tenants at City One Shatin occupied 32.3% of the Property's total Gross Rentable Area and contributed 29.7% of its total Base Rental Income.

## (B) The Waldorf Garden Property

The Waldorf Garden Property comprises the following shops and car parking spaces located at No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong:

- a retail floor on Level 3 of a 4-storey commercial/parking/recreational podium of a residential development known as "Waldorf Garden";
- 73 car parking spaces with two car parking spaces located on Level 1 of the podium, 67 car parking spaces on Level 2 and four lorry parking spaces on Level 1;
- Bicycle Parking Area on Level 1; and
- Bicycle Parking Area on Level 2.

The Waldorf Garden Property is located in the heart of Tuen Mun district surrounded by Tuen Lee Street, Castle Peak Road, Tuen Fat Road and Tuen Shing Street in Tuen Mun, New Territories.

The Waldorf Garden Property is part of the Waldorf Garden residential development, comprising 5 tower blocks on top of a commercial complex. The Waldorf Garden Property is connected to the adjacent Tuen Mun Town Plaza, one of the largest shopping mall in the Northwest New Territories, via a covered footbridge.

The Waldorf Garden Property is next to the Tuen Mun Highway. A transportation network of buses, light rail and taxis provide convenient access to different parts of the New Territories, Kowloon and Hong Kong Island. Moreover, the KCRC West Rail, which has commenced operation since December 2003 with the terminus at Tuen Mun, has generated much shopper traffic to the Waldorf Garden Property.

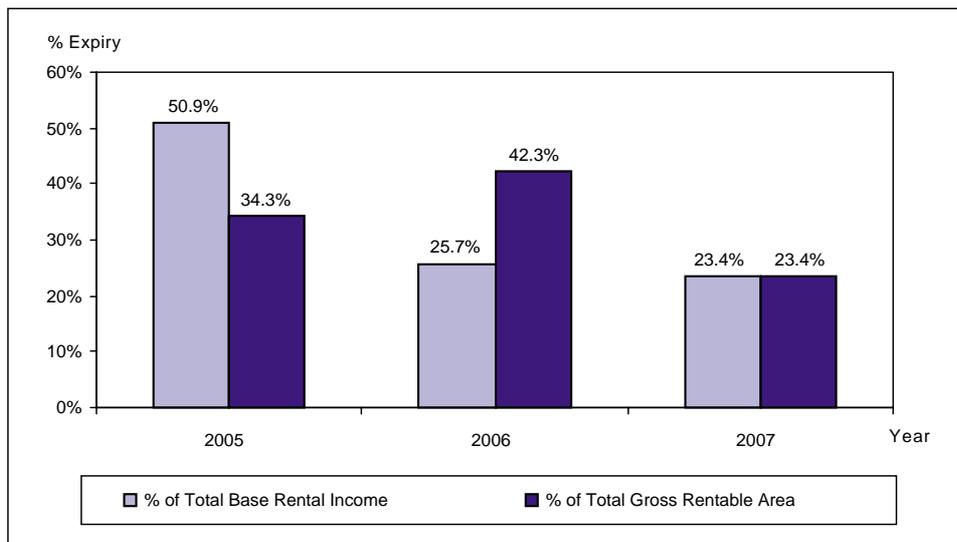
### Information about the Waldorf Garden Property

The following table sets out selected information about the Waldorf Garden Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	80,842 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	80,842 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	42
<b>Car parking spaces</b>	73
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	100.0%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$450.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$430.0 million
<b>Lower of the Two Valuations</b>	HK\$430.0 million

### Tenancy Expiry Profile for the Waldorf Garden Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Waldorf Garden Property by Base Rental Income and Gross Rentable Area:

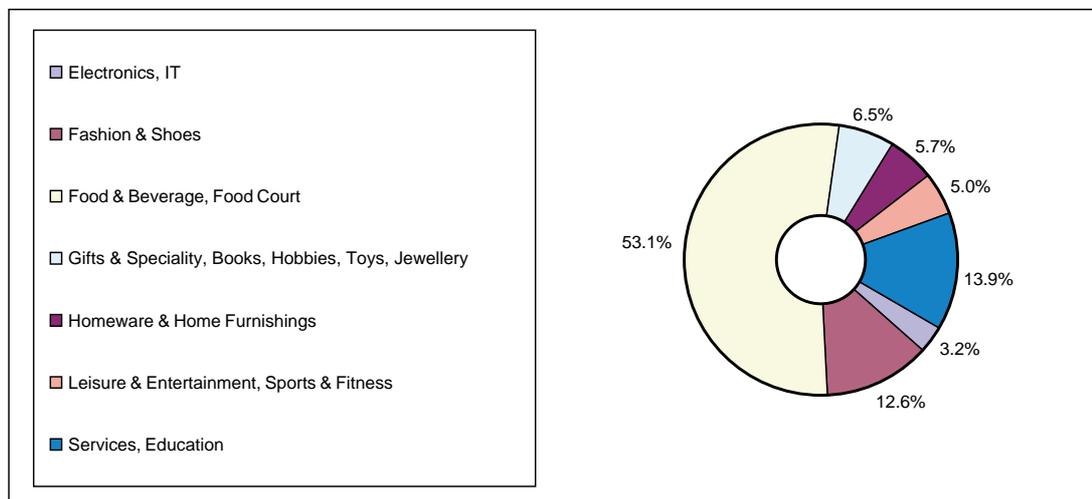


The tenancy expiry profile for the Waldorf Garden Property shows the highest percentage of tenancies expiring in 2005 and 2006. This is due to the fact that tenancies are, on average, contracted for a term of two to three years.

### Trade Sub-Sector Analysis for the Waldorf Garden Property (as at 31 December 2004)

#### (a) By Base Rental Income

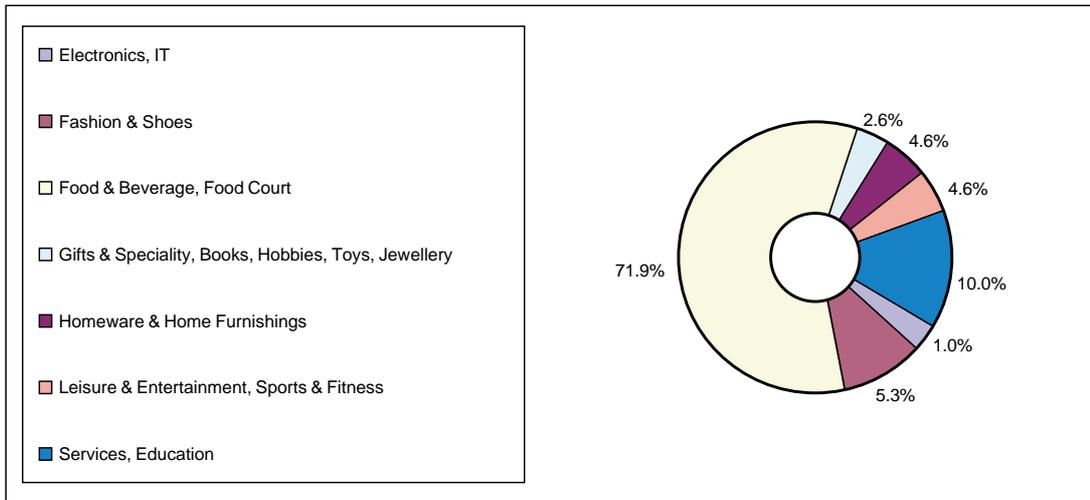
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Waldorf Garden Property:



The majority of the Waldorf Garden Property's Base Rental Income was contributed by the Food & Beverage, Food Court trade sub-sector, which accounted for 53.1% of the Property's total Base Rental Income as at 31 December 2004. No other single trade sub-sector contributed more than 13.9% of the total Base Rental Income as at 31 December 2004.

**(b) By Gross Rentable Area (as at 31 December 2004)**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Waldorf Garden Property:



The Food & Beverage, Food Court trade sub-sector occupied 71.9% of the total Gross Rentable Area of the Waldorf Garden Property. No other trade sub-sector occupied more than 10.0% of the total Gross Rentable Area as at 31 December 2004.

## Top Ten Tenants of the Waldorf Garden Property by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Waldorf Garden Property by Base Rental Income:

Tenant	Trade sub-sector	Expiry Date	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(1)</sup>
East Star Hotpot Seafood Restaurant <sup>(2)</sup>	Food & Beverage, Food Court	Jun 06	30,775	38.1	14.1
Café de Coral Fast Food <sup>(3)</sup>	Food & Beverage, Food Court	Jul 05	6,475	8.0	10.0
Deli House Company Limited	Food & Beverage, Food Court	Nov 07	5,721	7.1	5.9
Yeh Lam Kwok Restaurant <sup>(4)</sup>	Food & Beverage, Food Court	Jul 05	5,035	6.2	5.5
Jumpin Gym USA <sup>(5)</sup>	Services, Education	Nov 07	3,674	4.5	5.0
Individual Tenant <sup>(6)</sup>	Food & Beverage, Food Court	Mar 07	3,785	4.7	4.4
Popular Mark Development Company Limited	Food & Beverage, Food Court	Jan 05 <sup>(7)</sup>	2,230	2.8	4.1
Daniel <sup>(8)</sup>	Food & Beverage, Food Court	Sep 05	2,685	3.3	4.0
Watson's <sup>(9)</sup>	Services, Education	May 07 <sup>(10)</sup> May 07	3,688 979	5.8	3.3
Japan Home Centre <sup>(11)</sup>	Homeware and Home Furnishings	Jun 05	2,286	2.8	3.2
<b>Ten Largest Tenants by Total Base Rental Income</b>			67,333	83.3	59.5
Other Tenants			13,509	16.7	40.5
Vacant Space			—	—	—
<b>Total</b>			80,842	100.0	100.0

### Notes:

- (1) Based on each tenant's percentage contribution to Base Rental Income of the Waldorf Garden Property for the month ended 31 December 2004.
- (2) The tenant under the tenancy agreement is Tony International Enterprise Limited.
- (3) The tenant under the tenancy agreement is Weli Company Limited.
- (4) The tenant under the tenancy agreement is Silver Logic Limited.
- (5) The tenant under the tenancy agreement is Jumpin Gym U.S.A. Limited.
- (6) In compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the names of tenants who are individuals are not disclosed.
- (7) The tenant has renewed for a further term of two years at open market rent on 3 January 2005.
- (8) The tenant under the tenancy agreement is Tiptop Enterprises Limited.
- (9) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (10) The tenant has signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for such tenant.
- (11) The tenant under the tenancy agreement is Japan Home Centre (H.K.) Limited.

As at 31 December 2004, the top ten tenants at the Waldorf Garden Property occupied 83.3% of the Waldorf Garden Property's total Gross Rentable Area and contributed 59.5% of the Waldorf Garden Property's total Base Rental Income.

### (C) The Tsing Yi Square Property

The Tsing Yi Square Property comprises 48 shops on the Ground Floor, 29 shops on the 1st Floor and 27 car parking spaces on the basement of a commercial/residential development known as "Tsing Yi Garden" located at No. 7 to 19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong.

The Tsing Yi Square Property is located on Tsing Yi Island at the northwest of Hong Kong Island. It is part of the residential development of Tsing Yi Garden, which was completed in 1986 and has 1,520 residential units above a commercial complex.

The Tsing Yi Square Property is located opposite to the Tsing Yi Urban Service Complex Building, which consists of a wet and dry market, library, sports centre and government offices.

It is also near many other public facilities such as Tsing Yi Swimming Pool, Tsing Yi Sports Ground, Tsing Yi Clinic and badminton courts serving the neighbourhood of Tsing Yi.

The Tsing Yi Square Property is situated within walking distance of Tsing Yi MTR Station, which provides convenient access to Hong Kong Island, Kowloon and Hong Kong International Airport. It is also easily accessible via buses, public light buses and taxis.

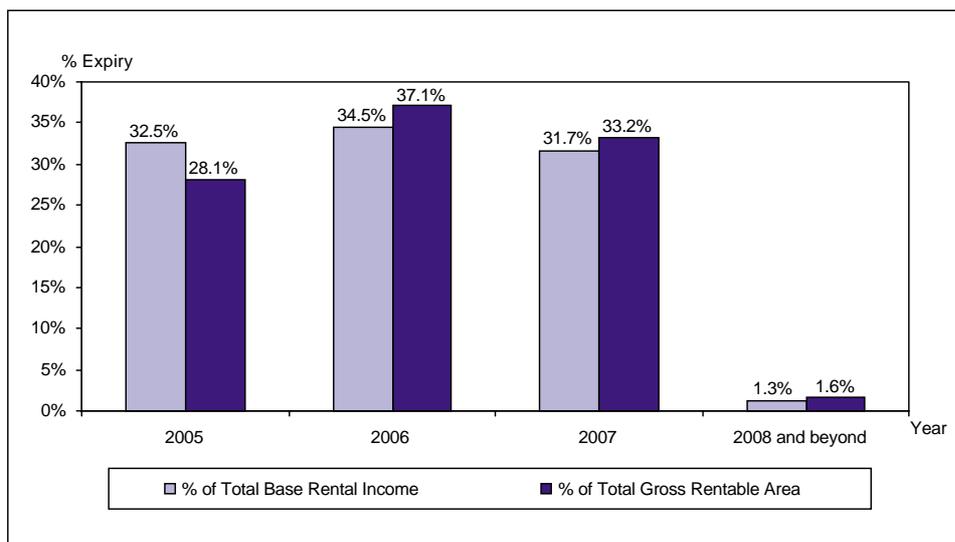
#### Information about the Tsing Yi Square Property

The following table sets out selected information about the Tsing Yi Square Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	78,836 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	78,836 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	56
<b>Car parking spaces</b>	27
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	97.2%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$250.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$250.0 million
<b>Lower of the Two Valuations</b>	HK\$250.0 million

### Tenancy Expiry Profile for the Tsing Yi Square Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Tsing Yi Square Property by Base Rental Income and Gross Rentable Area:

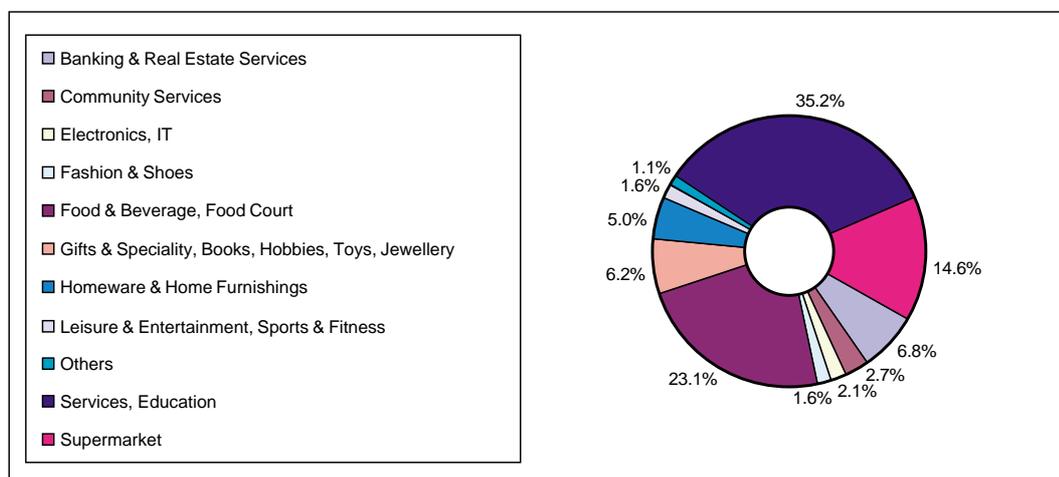


The Tsing Yi Square Property's tenancy expiry profile is evenly spread-out for 2005, 2006 and 2007.

### Trade Sub-Sector Analysis for the Tsing Yi Square Property (as at 31 December 2004)

#### (a) By Base Rental Income

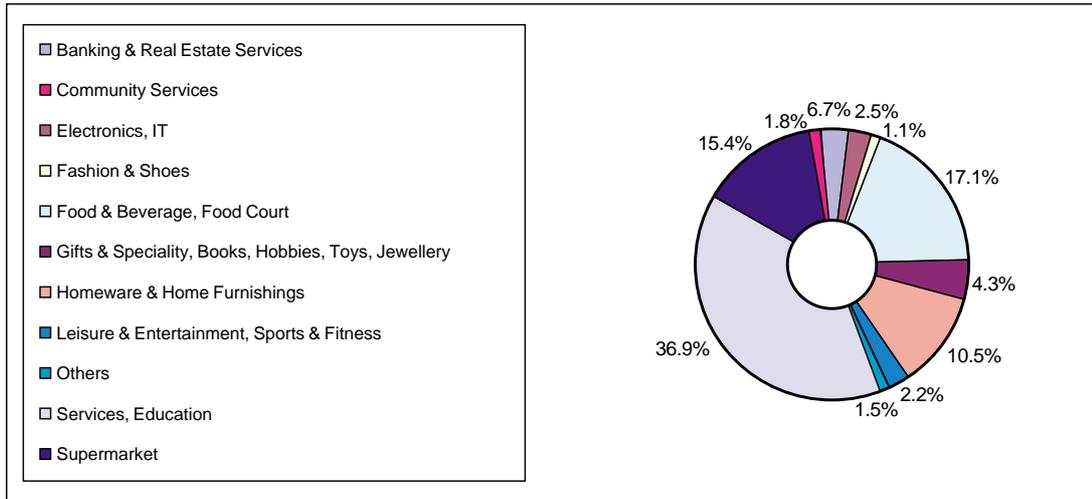
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Tsing Yi Square Property:



The Base Rental Income of the Tsing Yi Square Property is well diversified, with the Services, Education trade sub-sector being the highest contributor to the Tsing Yi Square Property's total Base Rental Income at 35.2%, followed by the Food & Beverage, Food Court trade sub-sector with 23.1%, as at 31 December 2004. No other trade sub-sector contributed more than 14.6% to Tsing Yi Square Property's total Base Rental Income.

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Tsing Yi Square Property:



The Tsing Yi Square Property is also well-diversified in terms of Gross Rentable Area. The Services, Education trade sub-sector occupied the most Gross Rentable Area (36.9%), followed by the Food & Beverage, Food Court trade sub-sector (17.1%) and the Supermarket trade sub-sector (15.4%) as at 31 December 2004.

## Top Ten Tenants of the Tsing Yi Square Property by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Tsing Yi Square Property by Base Rental Income:

Tenant	Trade sector	Expiry Date	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(1)(2)</sup>
Park'N Shop <sup>(3)</sup>	Supermarkets	Jun 07	9,425	12.0	12.0
Co-Win Chinese Restaurant Limited	Food & Beverage, Food Court	Jul 07	2,896	3.7	6.8
Individual Tenant <sup>(4)</sup>	Food & Beverage, Food Court	Jan 05 <sup>(5)</sup>	2,704	3.4	5.6
Tivoli Kindergarten and Nursery Limited	Services, Education	Jul 05	6,384	8.1	4.8
Midland Realty <sup>(6)</sup>	Banking & Real Estate Services	Jul 06	665	0.8	4.2
Individual Tenant <sup>(4)</sup>	Food & Beverage, Food Court	Mar 06	3,924	5.0	4.0
Centaline Property Agency Limited	Banking & Real Estate Services	Jun 05	697	0.9	2.9
Individual Tenant <sup>(4)</sup>	Homeware and Home Furnishings	Jun 06	5,711	7.2	2.9
Christian and Missionary Alliance Church	Services, Education	Aug 07	5,121	6.5	2.8
Individual Tenant <sup>(4)</sup>	Services, Education	Jul 06	749	1.0	2.7
<b>Ten Largest Tenants by Total Base Rental Income</b>			<b>38,276</b>	<b>48.6</b>	<b>48.7</b>
Other Tenants			38,315	48.6	51.3
Vacant Space			2,245	2.8	—
<b>Total</b>			<b>78,836</b>	<b>100.0</b>	<b>100.0</b>

### Notes:

- (1) Based on each tenant's percentage contribution to Base Rental Income of the Tsing Yi Square Property for the month ended 31 December 2004.
- (2) Elite Property Advisors Limited is a licensee of the Tsing Yi Square Property and contributed to 3.3% of the total Base Rental Income and license fees of the Property.
- (3) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (4) In compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the names of tenants who are individuals are not disclosed.
- (5) The tenant has renewed for a further term of three years at open market rent on 4 January 2005.
- (6) The tenant under the tenancy agreement is Midland Property Management Company Limited.

As at 31 December 2004, the top ten tenants at the Tsing Yi Square Property occupied 48.6% of the Property's total Gross Rentable Area and contributed 48.7% of its total Base Rental Income.

#### (D) The Centre de Laguna Property

The Centre de Laguna Property comprises the commercial area on the Ground Floor of the commercial development known as "Centre de Laguna", and the kindergarten of Blocks 32 to 38 of Laguna City located at the junction of Cha Kwo Ling Road and Sin Fat Road, Kowloon, Hong Kong.

The Centre de Laguna Property is located in Phase 3 of the Laguna City residential development in Cha Kwo Ling within the Kwun Tong district which is a densely populated district comprising mainly large housing estates and industrial estates.

The Centre de Laguna Property is designed to serve the local shopping needs of the residents in the area. The Property was completed in 1992 and is part of the Laguna City residential development, a site of almost one million sq ft with about 8,072 residential units. Another residential project, Sceneway Garden, is also located near the Centre de Laguna Property.

The Centre de Laguna Property is easily accessible by public and private transport, namely, buses, public light buses, and taxis. It is also within walking distance of the Lam Tin MTR station.

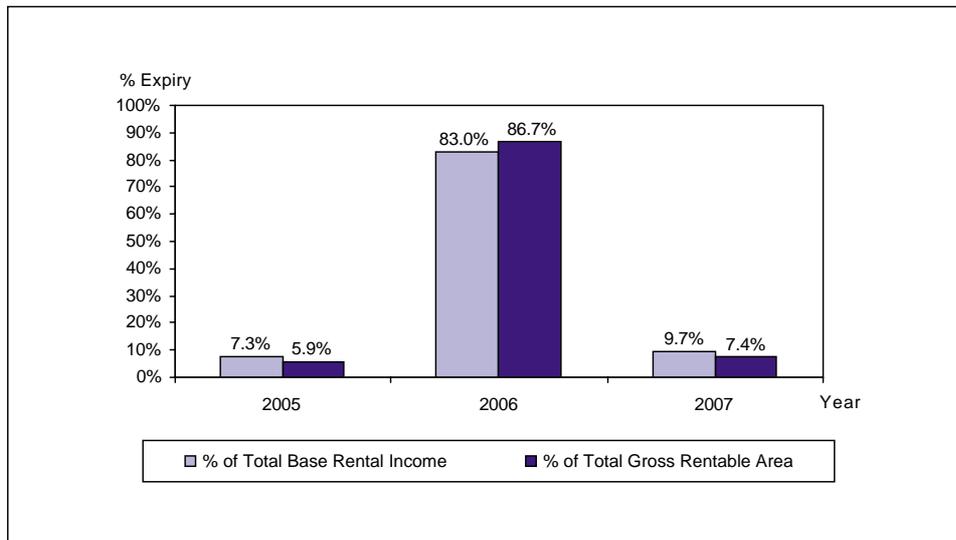
#### Information about the Centre de Laguna Property

The following table sets out selected information about the Centre de Laguna Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	43,000 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	43,000 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	21
<b>Car parking spaces</b>	—
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	100.0%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$145.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$156.0 million
<b>Lower of the Two Valuations</b>	HK\$145.0 million

### Tenancy Expiry Profile for the Centre de Laguna Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Centre de Laguna Property by Base Rental Income and Gross Rentable Area:

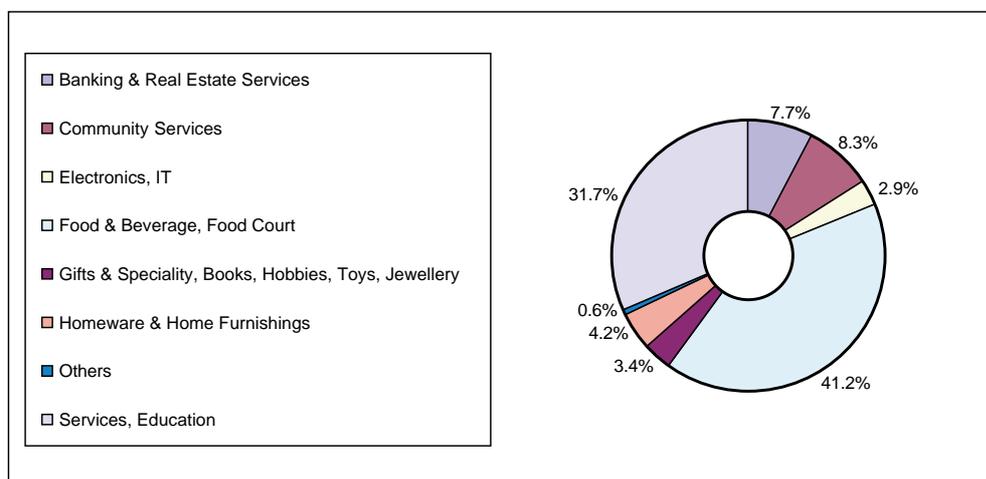


About 80.0% of the tenancies at the Centre de Laguna Property is expected to expire in 2006. The rest of the tenancies are expected to expire in 2005 and 2007.

### Trade Sub-Sector Analysis for the Centre de Laguna Property (as at 31 December 2004)

#### (a) By Base Rental Income

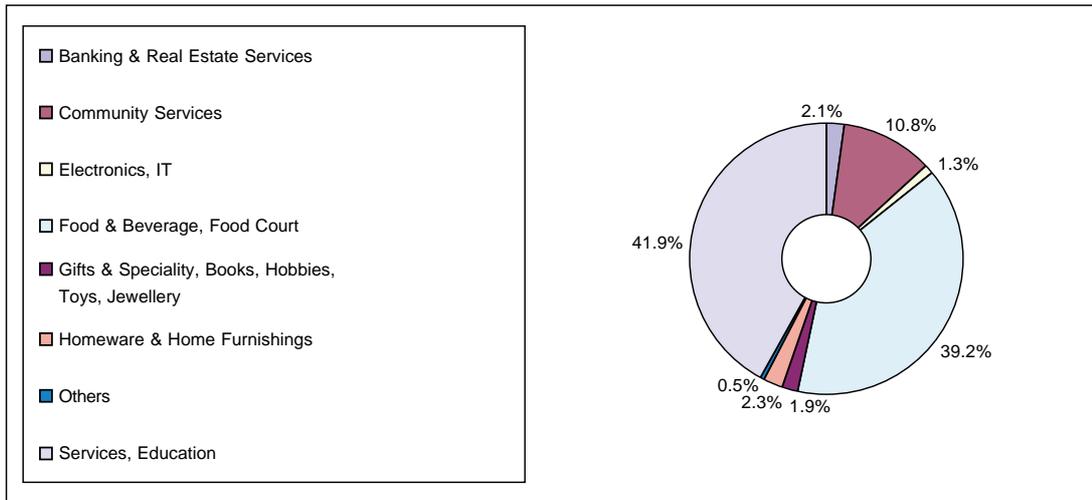
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Centre de Laguna Property:



The Food & Beverage, Food Court was the largest trade sub-sector at the Centre de Laguna Property (in terms of Base Rental Income), contributing 41.2% of the Property's total Base Rental Income. The next largest trade sub-sector is the Services, Education (31.7%). The Centre de Laguna Property is well-diversified in terms of Base Rental Income, with no trade sub-sector contributing more than 8.3% of the total Base Rental Income as at 31 December 2004.

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Centre de Laguna Property:



The Services, Education trade sub-sector occupied 41.9% of total Gross Rentable Area, while the Food & Beverage, Food Court trade sub-sector occupied 39.2% of total Gross Rentable Area. No other trade sub-sector occupied more than 10.8% of the total Gross Rentable Area of the Centre de Laguna Property.

### Top Ten Tenants of the Centre de Laguna Property by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Centre de Laguna Property by Base Rental Income:

Tenant	Trade sector	Expiry date	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(1)</sup>
Fook Chun Seafood Restaurant <sup>(2)</sup>	Food and Beverage/ Food Court	Apr 06	11,171	26.0	22.0
Think International Kindergarten <sup>(3)</sup>	Services, Education	Jul 06	13,917	32.4	21.2
Sail Town Enterprises Limited	Food and Beverage/ Food Court	Apr 07	2,966	6.9	9.1
The Association of Evangelical Free Churches of Hong Kong	Services, Education	Jan 06	4,662	10.8	8.3
Millirich Corporation Limited	Food & Beverage, Food Court	Jul 06	1,960	4.6	8.1
Centaline Property Agency Limited	Banking & Real Estate Services	Mar 06	911	2.1	7.7
Individual Tenant <sup>(4)</sup>	Services, Education	Sep 06	925	2.2	3.4
Capo Music House Limited	Services, Education	May 06	829	1.9	3.4
Elegance Beauty Spa <sup>(5)</sup>	Services, Education	Jul 05	693	1.6	1.9
Fook Chun Roast Shop <sup>(2)</sup>	Food & Beverage, Food Court	Apr 06	303	0.7	1.9
<b>Ten Largest Tenants by Total Base Rental Income</b>			<b>38,337</b>	<b>89.2</b>	<b>87.0</b>
Other Tenants			4,663	10.8	13.0
Vacant Space			—	—	—
<b>Total</b>			<b>43,000</b>	<b>100.0</b>	<b>100.0</b>

**Notes:**

- (1) Based on each tenant's percentage contribution to Base Rental Income of the Centre de Laguna Property for the month of 31 December 2004.
- (2) The tenant under the tenancy agreement is Firstwide Holdings Limited.
- (3) The tenant under the tenancy agreement is Uni-power Services Limited.
- (4) In compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the names of tenants who are individuals are not disclosed.
- (5) The tenant under the tenancy agreement is Elegance International Beauty and Figure School Limited.

The top ten tenants at the Centre de Laguna Property occupied 89.2% of the Property's total Gross Rentable Area and contributed 87.0% of its total Base Rental Income as at 31 December 2004.

### (E) The Lido Garden Property

The Lido Garden Property comprises 12 shop units on a portion on the Ground Floor at the northern fringe of the side boundary of the commercial/residential development called “Lido Garden”, located at No. 41–63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong.

The Lido Garden Property is located in Sham Tseng, a narrow strip of flat land along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge. It is a small residential area west of Tsuen Wan New Town.

It is part of the Lido Garden residential development, which was completed in 1989. The area is famous for its restaurants. The piers in Sham Tseng are also a favourite place for people to go fishing. Moreover, new residential developments are currently under construction in the vicinity and, when all of them are fully completed, they are expected to increase shopper traffic for the Lido Garden Property.

The Lido Garden Property is easily accessible via buses, public light buses, and taxis.

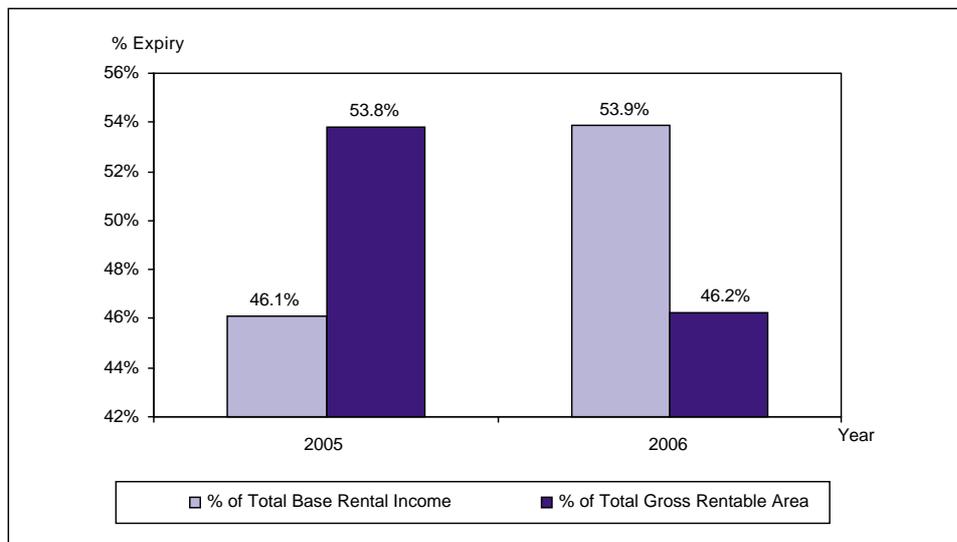
#### Information about the Lido Garden Property

The following table sets out selected information about the Lido Garden Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	9,836 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	9,836 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	12
<b>Car parking spaces</b>	—
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	100.0%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$80.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$80.0 million
<b>Lower of the Two Valuations</b>	HK\$80.0 million

### Tenancy Expiry Profile for the Lido Garden Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Lido Garden Property by Base Rental Income and Gross Rentable Area:

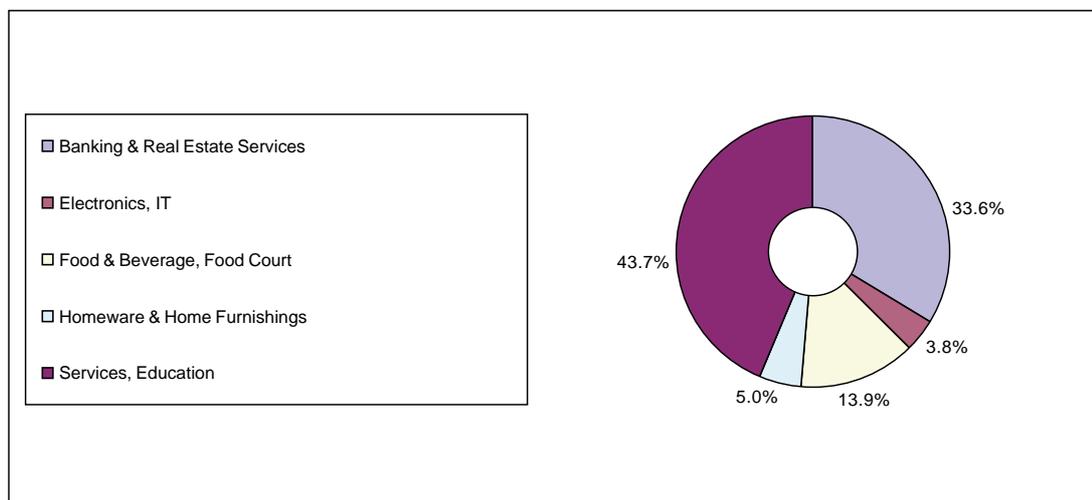


The tenancy expiry profile for the Lido Garden Property shows around half of the tenancies expires in 2005 while the other half expires in 2006. This is due to the fact that tenancies are on average, contracted for a term of two to three years.

### Trade Sub-Sector Analysis for the Lido Garden Property (as at 31 December 2004)

#### (a) By Base Rental Income

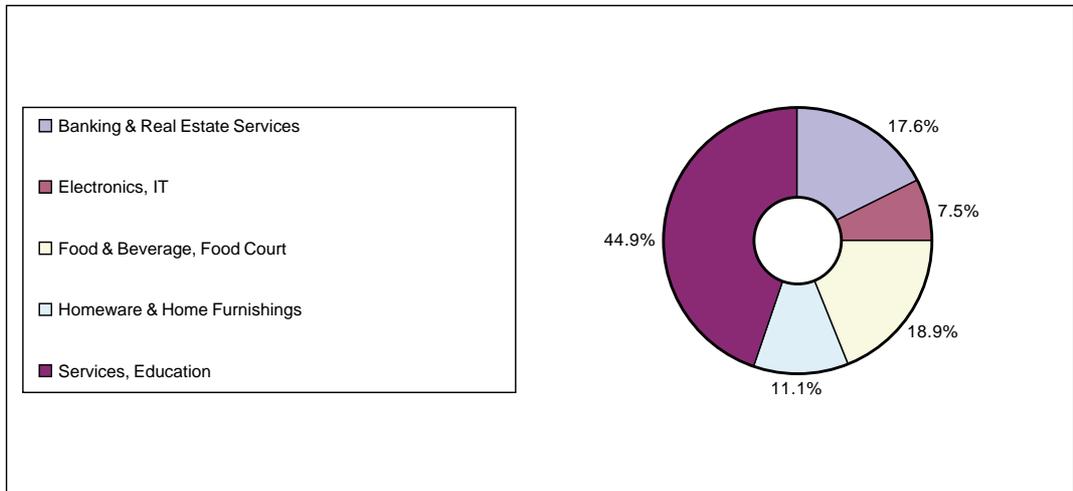
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Lido Garden Property:



The largest contributor to the Lido Garden Property's Base Rental Income was the Services, Education trade sub-sector (43.7%) followed by the Banking & Real Estate Services trade sub-sector at 33.6%.

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Lido Garden Property:



The Banking & Real Estate Services trade sub-sector occupied 44.9% of the Lido Garden Property's total Gross Rentable Area, followed by the Food & Beverage, Food Court trade sub-sector which occupied 18.9% of the total Gross Rentable Area.

## Top Ten Tenants of the Lido Garden Property by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Lido Garden Property by Base Rental Income:

Tenant	Trade sector	Expiry Date	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(1)</sup>
Midland Realty <sup>(2)</sup>	Banking & Real Estate Services	Dec 06	1,271	12.9	25.2
7-Eleven <sup>(3)</sup>	Services, Education	Sep 05	1,544	15.7	15.9
Pizza Hut <sup>(4)</sup>	Food & Beverage, Food Court	Sep 06	1,863	18.9	13.9
Health Network Medical Services Co. Ltd.	Services, Education	May 05 <sup>(5)</sup> May 05	718 537	12.8	12.9
Centaline Property Agency Ltd.	Banking & Real Estate Services	May 06	462	4.7	8.4
Pretty Skin Care and Slimfit Centre <sup>(6)</sup>	Services, Education	Apr 05	550	5.6	6.3
Individual Tenant <sup>(7)</sup>	Homeware and Home Furnishings	Oct 05	1,095	11.1	5.0
Individual Tenant <sup>(7)</sup>	Electronics/IT	Jan 06	733	7.5	3.8
Individual Tenant <sup>(7)</sup>	Services, Education	Sep 05	447	4.5	3.6
Fleming Dental Centre <sup>(8)</sup>	Services, Education	Jul 06	216	2.2	2.6
<b>Ten Largest Tenants by Total Base Rental Income</b>			9,436	95.9	97.6
Other Tenants			400	4.1	2.4
Vacant Space			—	—	—
<b>Total</b>			9,836	100.0	100.0

### Notes:

- (1) Based on each tenant's percentage contribution to Base Rental Income of the Lido Garden Property for the month ended of 31 December 2004.
- (2) The tenant under the tenancy agreement is Midland Property Administration Limited.
- (3) The tenant under the tenancy agreement is The Dairy Farm Company Limited.
- (4) The tenant under the tenancy agreement is Pizza Hut Hong Kong Management Limited.
- (5) The tenant has signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for the tenant.
- (6) The tenant under the tenancy agreement is Joyce Sky Limited.
- (7) In compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the names of tenants who are individuals are not disclosed.
- (8) The tenant under the tenancy agreement is Fleming Health Limited.

As at 31 December 2004, the ten largest tenants at the Lido Garden Property occupied 95.9% of total Gross Rentable Area and contributed 97.6% of its total Base Rental Income.

## (F) The Rhine Garden Property

The Rhine Garden Property comprises various retail portions on the Ground Floor of the 3-storey podium of a commercial/residential development with ancillary car parking and recreational facilities called "Rhine Garden" located at No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong.

As with Lido Garden, Rhine Garden is located in Sham Tseng along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge.

The Rhine Garden Property is part of the Rhine Terrace residential development, which was completed in 1992. It is expected that there will be significant population growth in the area with the full completion of some large residential projects in the vicinity.

The Rhine Garden Property is easily accessible via buses, public light buses and taxis.

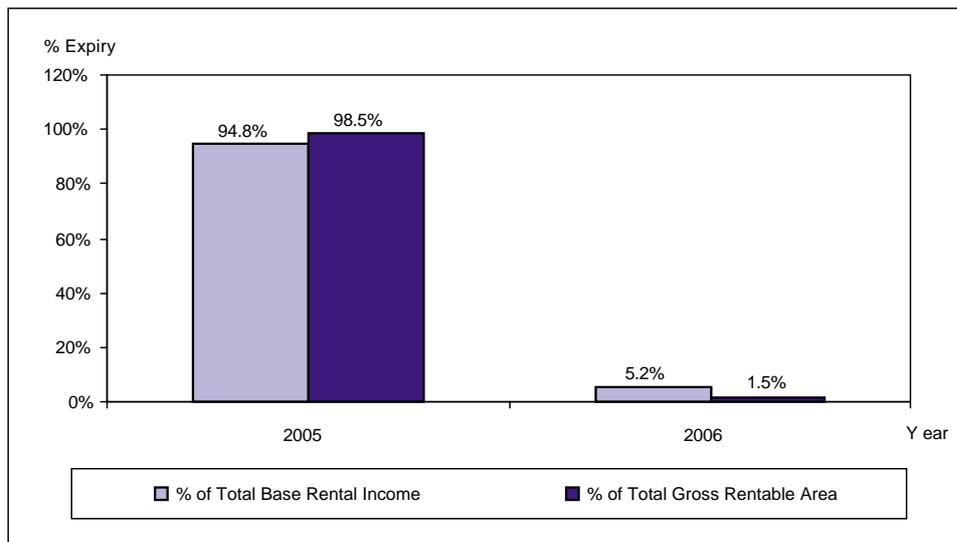
### Information about the Rhine Garden Property

The following table sets out selected information about the Rhine Garden Property:

<b>Gross Rentable Area</b> (as at 31 December 2004)	14,604 sq ft
<b>Gross Floor Area</b> (as at 31 December 2004)	14,604 sq ft
<b>Number of tenants</b> (as at 31 December 2004)	2
<b>Car parking spaces</b>	—
<b>Government Lease expiry</b>	30 June 2047
<b>Occupancy rate</b> (as at 31 December 2004)	100.0%
<b>Valuation by Chesterton Petty Ltd</b> (as at 31 January 2005)	HK\$50.0 million
<b>Valuation by Vigers Appraisal &amp; Consulting Limited</b> (as at 31 January 2005)	HK\$43.0 million
<b>Lower of the Two Valuations</b>	HK\$43.0 million

### Tenancy Expiry Profile for the Rhine Garden Property (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Rhine Garden Property by Base Rental Income and Gross Rentable Area:

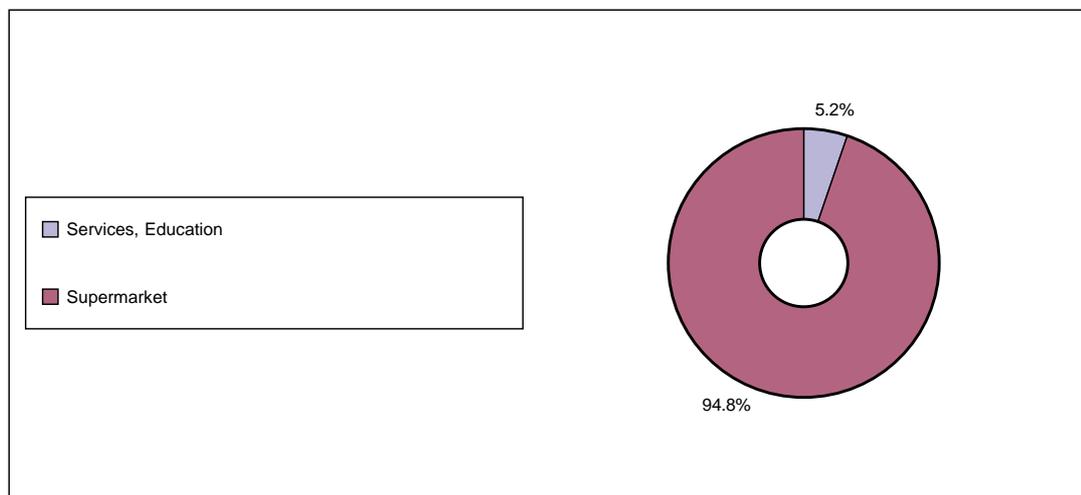


As at 31 December 2004, the Rhine Garden Property had two tenants, namely, Park'N Shop (which contributed 94.8% of the Rhine Garden Property's total Base Rental Income and whose tenancy will expire in 2005) and 7-Eleven (whose tenancy will expire in 2006).

### Trade Sub-Sector Analysis for the Rhine Garden Property (as at 31 December 2004)

#### (a) By Base Rental Income

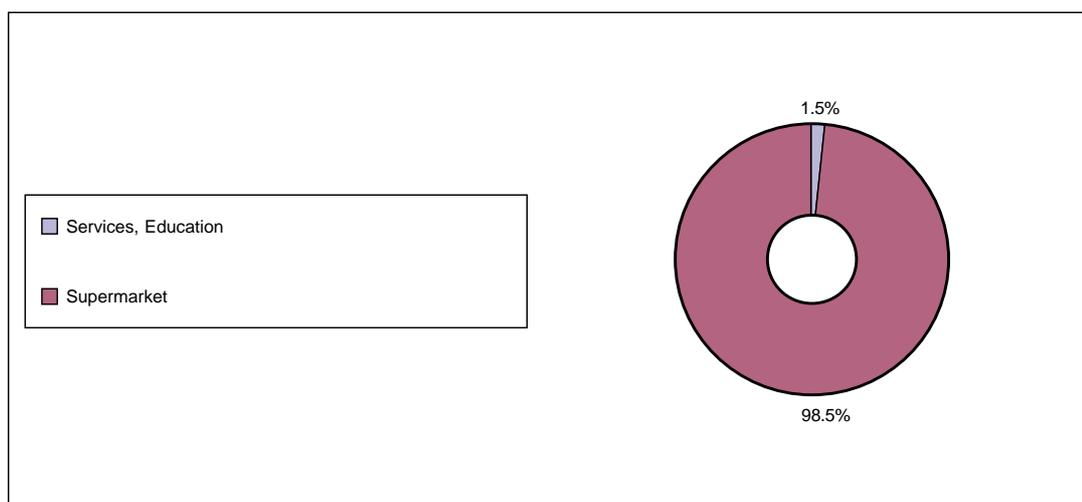
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Rhine Garden Property:



The Supermarket trade sub-sector contributed 94.8% of Rhine Garden's total Base Rental Income as at 31 December 2004.

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Rhine Garden Property:



Park'N Shop, which is the leading supermarket chain in Hong Kong, occupied 98.5% of the Rhine Garden Property's total Gross Rentable Area and contributed 94.8% of its total Base Rental Income as at 31 December 2004. The other tenant, 7-Eleven, occupied 1.5% of the Rhine Garden Property's Gross Rentable Area and contributed 5.2% to its total Base Rental Income as at 31 December 2004.

**Tenants of the Rhine Garden Property by Base Rental Income (as at 31 December 2004)**

The following table sets out selected information about the tenants of the Rhine Garden Property by Base Rental Income:

Tenant	Trade sector	Expiry date	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(1)</sup>
Park'N Shop <sup>(2)</sup>	Supermarkets	May 05 <sup>(3)</sup>	14,378	98.5	94.8
7-Eleven <sup>(4)</sup>	Services, Education	Jan 06	226	1.5	5.2
<b>Total Tenants</b>			14,604	100.0	100.0
Other Tenants			—	—	—
Vacant Space			—	—	—
<b>Total</b>			14,604	100.0	100.0

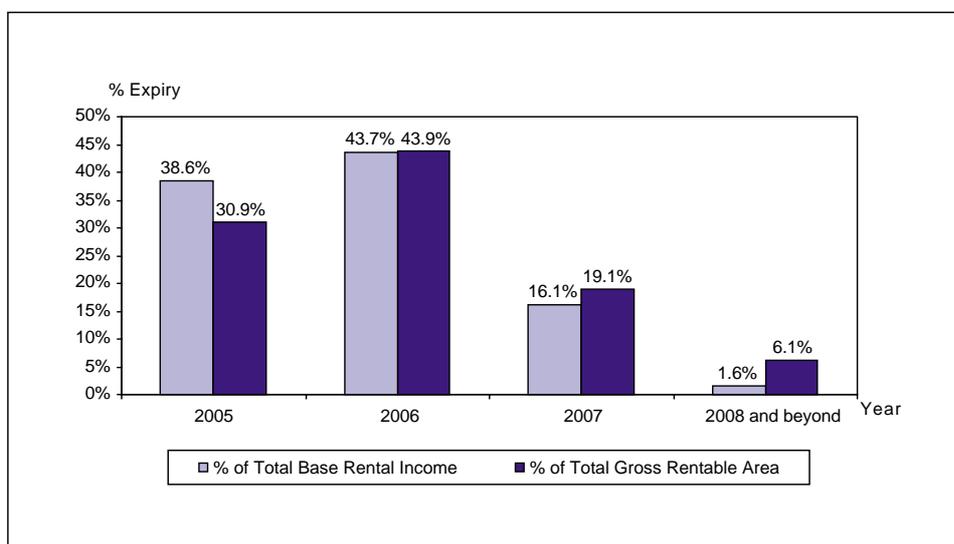
**Notes:**

- (1) Based on each tenant's percentage contribution to Base Rental Income of the Property for the month ended 31 December 2004.
- (2) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (3) Upon expiry of the existing tenancy, the shop will be sub-divided and leased to three separate tenants. The existing tenant has signed an offer letter on 28 April 2005 to lease 13,022 sq ft of the space.
- (4) The tenant under the tenancy agreement is The Dairy Farm Company Limited.

**(G) THE PROPERTIES (COMPRISING THE CITY ONE SHATIN PROPERTY, THE WALDORF GARDEN PROPERTY, THE TSING YI SQUARE PROPERTY, THE CENTRE DE LAGUNA PROPERTY, THE LIDO GARDEN PROPERTY AND THE RHINE GARDEN PROPERTY)**

**Tenancy Expiry Profile for the Properties (as at 31 December 2004)**

The following graph illustrates the tenancy expiry profile of the Properties by Base Rental Income and Gross Rentable Area:



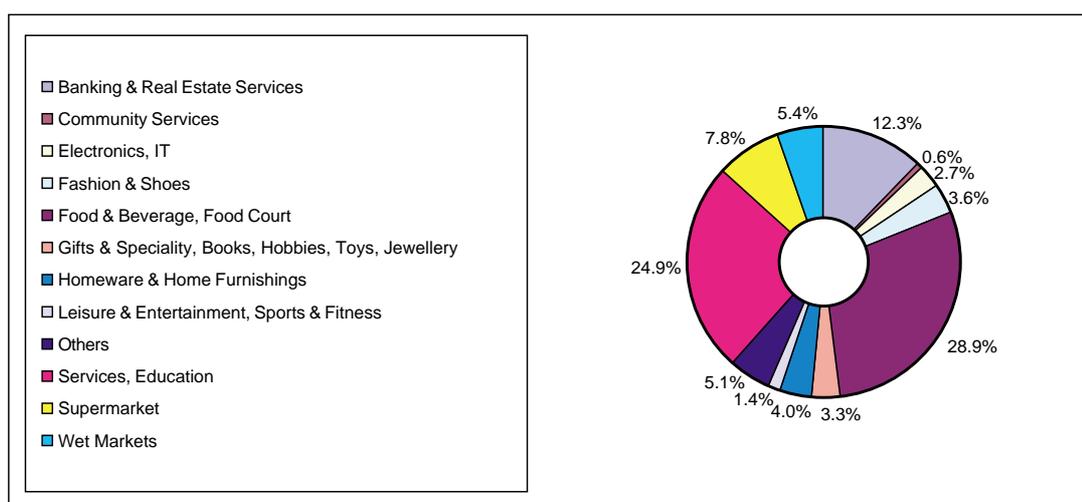
Tenancy expiry at the Properties was reasonably evenly distributed with approximately one-third of the tenancies expiring in each of 2005 and 2006.

**Trade Sub-Sector Analysis for the Properties (as at 31 December 2004)**

The Properties have very well-diversified income streams in terms of trade sub-sectors.

**(a) By Base Rental Income**

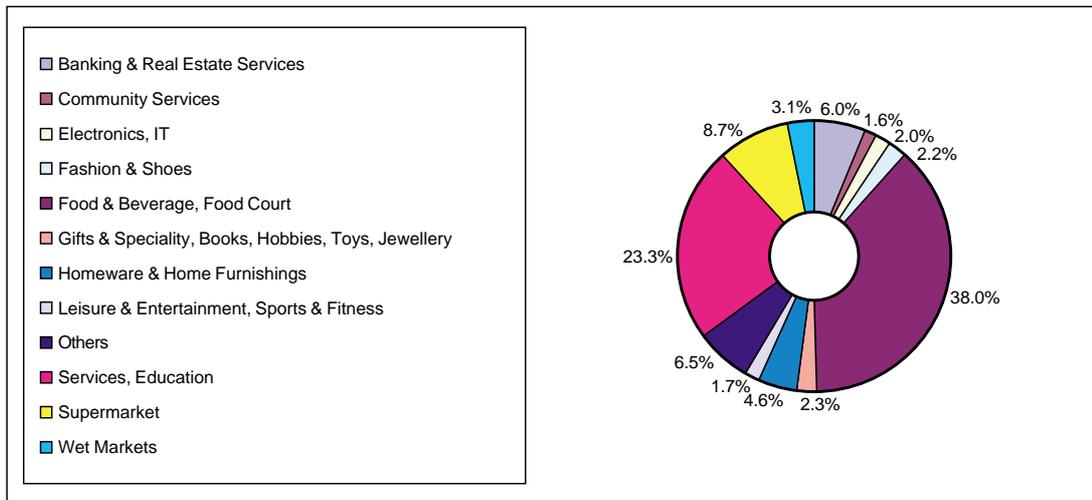
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Properties:



The Food & Beverage, Food Court trade sub-sector was the largest contributor to total Base Rental Income, accounting for 28.9% of the total Base Rental Income, followed by the Service, Education trade sub-sector (24.9%) and the Banking & Real Estate Services trade sub-sector (12.3%).

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Properties:



As at 31 December 2004, the trade sub-sector that occupied the most Gross Rentable Area was the Food & Beverage, Food Court trade sub-sector, which accounted for 38.0% of total Gross Rentable Area. This was followed by the Services, Education trade sub-sector (23.3%). No single trade sub-sector contributed more than 8.7% of the total Gross Rentable Area of the Properties.

### Top Ten Tenants of the Properties by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Properties by Base Rental Income:

Tenant	Trade sector	Expiry Date <sup>(1)</sup>	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(2)</sup>
Park'N Shop <sup>(3)</sup>	Supermarkets	May 05 Jul 05 Nov 06 Jun 07	14,378 11,804 13,000 9,425	7.6	7.1
7-Eleven <sup>(4)</sup>	Services, Education	Sep 05 Nov 05 Jan 06 Aug 06 Mar 07 Sep 07	1,544 2,650 226 321 3,188 892	1.4	2.7
Bank of China (Hong Kong) <sup>(5)</sup>	Banking & Real Estate Services	Oct 05 Oct 05	5,853 1,790	1.2	2.5
McDonald's <sup>(6)</sup>	Food & Beverage, Food Court	Jan 06	7,773	1.2	2.4
Cambridge Nursing Home (City One) Limited	Services, Education	Apr 06	25,448	4.0	2.3
Midland Realty <sup>(7)</sup>	Banking & Real Estate Services	May 06 Jul 06 Jul 06 Dec 06	605 424 665 1,271	0.5	2.2
Catiline Anglo-Chinese Kindergarten <sup>(8)</sup>	Services, Education	Jul 05 Jul 07	2,422 16,345	2.9	2.0
Centaline Property Agency Limited	Banking & Real Estate Services	Jun 05 Dec 05 Mar 06 May 06 Jul 06	697 467 911 462 544	0.5	1.9
Watson's <sup>(3)</sup>	Services, Education	Feb 05 May 07 May 07	4,802 3,688 979	1.5	1.8
Café de Coral Fast Food <sup>(9)</sup>	Food & Beverage, Food Court	Jul 05 Feb 07	6,475 9,924	2.6	1.7
<b>Ten Largest Tenants by Total Base Rental Income</b>			148,973	23.4	26.6
Other Tenants			471,215	73.3	73.4
Vacant Space			21,399	3.3	—
<b>Total</b>			641,587	100.0	100.0

**Notes:**

- (1) Some of the tenants above have signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for such tenants.
- (2) Based on each tenant's percentage contribution to Base Rental Income of the Property for the month ended 31 December 2004.
- (3) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (4) The tenant under the tenancy agreement is The Dairy Farm Company, Limited.
- (5) The tenant under the tenancy agreement is Bank of China (H.K.) Limited.
- (6) The tenant under the tenancy agreement is McDonald's Restaurants (HK) Limited.
- (7) The tenant under the tenancy agreement is Midland Property Management Company Limited, Midland Property Leasing Limited and Midland Property Administration Limited.
- (8) The tenant under the tenancy agreement is Greenie Education Services Company Limited.
- (9) The tenant under the tenancy agreement is Weli Company Limited and Very Nice Fast Food Limited.

As at 31 December 2004, the top tenants of the Properties occupied 23.4% of its total Gross Rentable Area and contributed 26.6% of its total Base Rental Income.

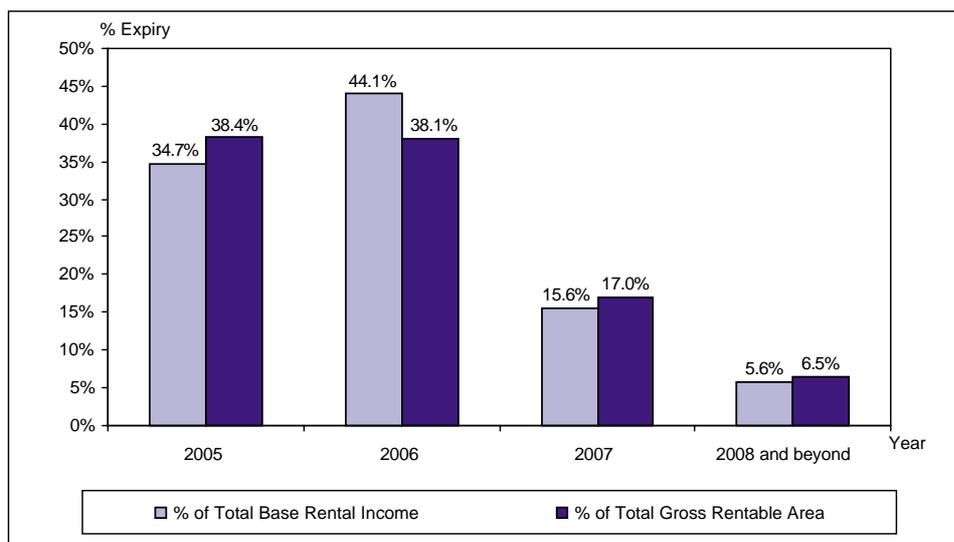
**(H) EXISTING PROPERTIES (COMPRISING THE METROPOLIS MALL, MA ON SHAN PLAZA, THE HOUSEHOLD CENTER, SMARTLAND AND JUBILEE COURT SHOPPING CENTRE)**

The following table sets out selected information about the Existing Properties:

	<b>The Metropolis Mall</b>	<b>Ma On Shan Plaza</b>	<b>The Household Center</b>	<b>Smartland</b>	<b>Jubilee Court Shopping Centre</b>
Gross Rentable Area	332,168 sq ft	310,084 sq ft	91,779 sq ft	123,544 sq ft	170,616 sq ft
Gross Floor Area	344,055 sq ft	319,560 sq ft	100,599 sq ft	125,446 sq ft	172,179 sq ft
Number of tenants (as at 31 December 2004)	93	147	44	102	52
Car park spaces	179	290	43	67	97
Government lease expiry	30 Jun 2047	30 Jun 2047	16 Jul 2048	30 Jun 2047	30 Jun 2047
Valuation (as at 31 January 2005) (HK\$ million)	1,959	1,282	302	346	295
Occupancy rate (as at 31 December 2004)	87.8%	98.9%	98.2%	98.8%	96.7%

### Tenancy Expiry Profile for the Existing Properties (as at 31 December 2004)

The following graph illustrates the tenancy expiry profile of the Existing Properties by Base Rental Income and Gross Rentable Area:



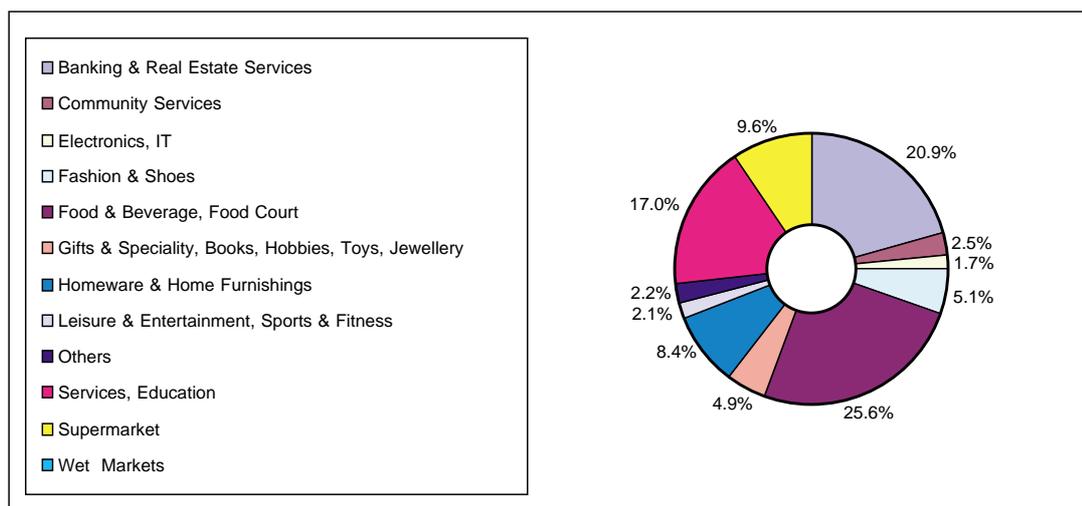
The tenancy expiry profile for the Existing Properties shows the highest percentage of tenancies expiring in 2005 and 2006. This is due to the fact that tenancies are, on average, contracted for a term of two to three years.

### Trade Sub-Sector Analysis for the Existing Properties (as at 31 December 2004)

The Existing Properties have very well-diversified income streams in terms of trade sub-sectors.

#### (a) By Base Rental Income

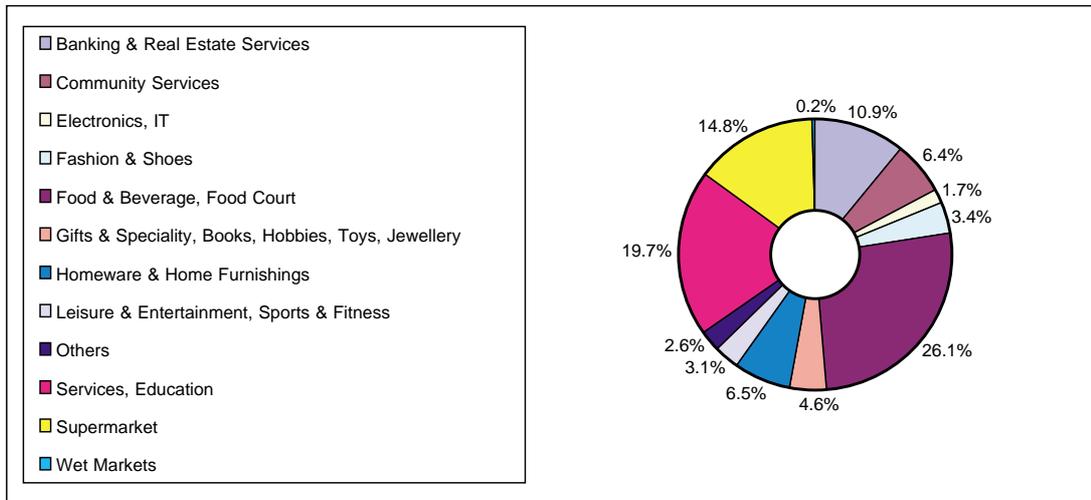
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in the Existing Properties:



As 31 December 2004, the Food & Beverage, Food Court trade sub-sector was the largest contributor to total Base Rental Income, which accounted for 25.6% of the total Base Rental Income, followed by the Banking & Real Estate Services trade sub-sector (20.9%) and the Services, Education trade sub-sector (17.0%).

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in the Existing Properties:



As at 31 December 2004, the trade sub-sector that occupied the most Gross Rentable Area was Food & Beverage, Food Court trade sub-sector. This was followed by the Services, Education trade sub-sector (19.7%), the Supermarket trade sub-sector (14.8%) and the Banking & Real Estate Services trade sub-sector (10.9%).

## Top Ten Tenants of the Existing Properties by Base Rental Income (as at 31 December 2004)

The following table sets out selected information about the top ten tenants of the Existing Properties by Base Rental Income:

Tenant	Trade sector	Expiry Date <sup>(1)</sup>	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(2)(3)</sup>
Park'N Shop <sup>(4)</sup>	Supermarkets	Jul 05 Jul 05 Oct 05 Aug 07 Oct 07	32,142 41,178 6,376 8,229 56,348	14.0	9.4
Clayton Power Enterprises Limited	Banking & Real Estate Services	May 06	32,189	3.1	6.4
Lifestyle Concept Store <sup>(5)</sup>	Homeware and Home Furnishings	May 06	33,854	3.3	5.7
Marketon Investment Limited	Banking & Real Estate Services	Jun 06	31,383	3.1	5.2
The Metropolis Express <sup>(6)</sup>	Food & Beverage, Food Court	May 06	32,622	3.2	4.8
Maxim's Chinese Restaurant <sup>(7)</sup>	Food & Beverage, Food Court	Aug 05	49,014	4.8	3.7
International Christian Schools Limited	Services, Education	Jul 06 Jul 06 Jul 06 Aug 06	34,585 13,566 5,385 4,370	5.6	2.6
Fook Ho Seafood Hotpot Restaurant <sup>(8)</sup>	Food & Beverage, Food Court	May 06	22,920	2.2	2.2
Choi Fook Seafood Restaurant <sup>(9)</sup>	Food & Beverage, Food Court	Aug 08	16,971	1.7	2.1
Watson's <sup>(4)</sup>	Services, Education	Jan 05 <sup>(10)</sup> Jun 05 Aug 07 Sep 07	3,477 2,475 5,447 1,988	1.3	1.6
<b>Ten Largest Tenants by Total Base Rental Income</b>			434,519	42.3	43.7
Other Tenants			539,679	52.4	56.3
Vacant Space			53,993	5.3	—
<b>Total</b>			1,028,191	100.0	100.0

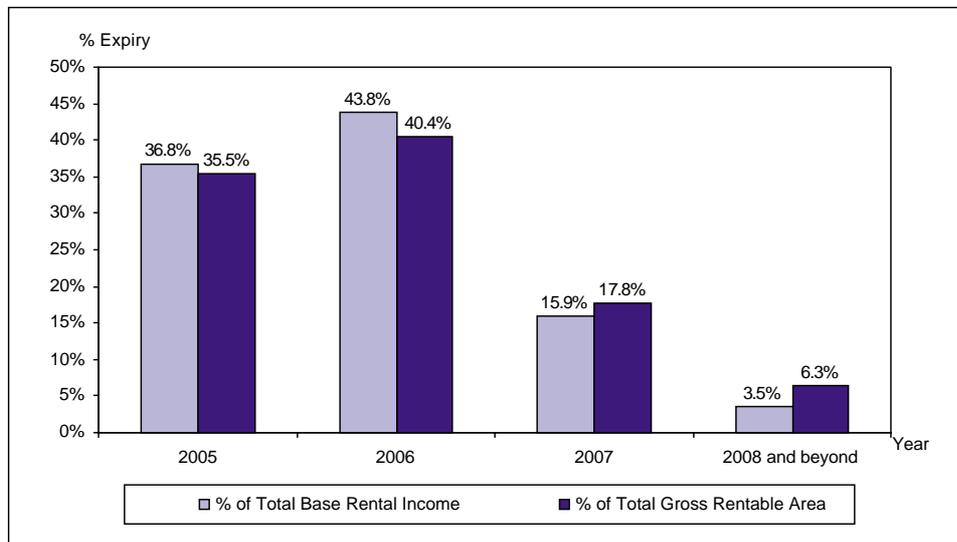
### Notes:

- (1) Some of the tenants above have signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for such tenants.
- (2) Based on each tenant's percentage contribution to Base Rental Income of the Existing Property for the month ended 31 December 2004.
- (3) Match Power Investment Limited is a monthly licensee of the Existing Properties and contributed 3.2% of the total Base Rental Income and licence fees of the Existing Properties for the month ended 31 December 2004.
- (4) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (5) The tenant under the tenancy agreement is Marketon Investment Limited.
- (6) The tenant under the tenancy agreement is Harbour Plaza Metropolis Limited.
- (7) The tenant under the tenancy agreement is Maxim's Caterers Limited.
- (8) The tenant under the tenancy agreement is Team Field Limited.
- (9) The tenant under the tenancy agreement is Profit Bright Investment Limited.
- (10) The tenant has renewed for a further term of three years on 26 January 2005.

As at 31 December 2004, the top tenants of the Existing Properties occupied 42.3% of its total Gross Rentable Area and contributed 43.7% of its total Base Rental Income.

**(I) ENLARGED FORTUNE REIT PORTFOLIO (COMPRISING THE PROPERTIES AND THE EXISTING PROPERTIES)**

The following graph illustrates the tenancy expiry profile of Fortune REIT's enlarged portfolio comprising the Properties and the Existing Properties by Base Rental Income and Gross Rentable Area (as at 31 December 2004):

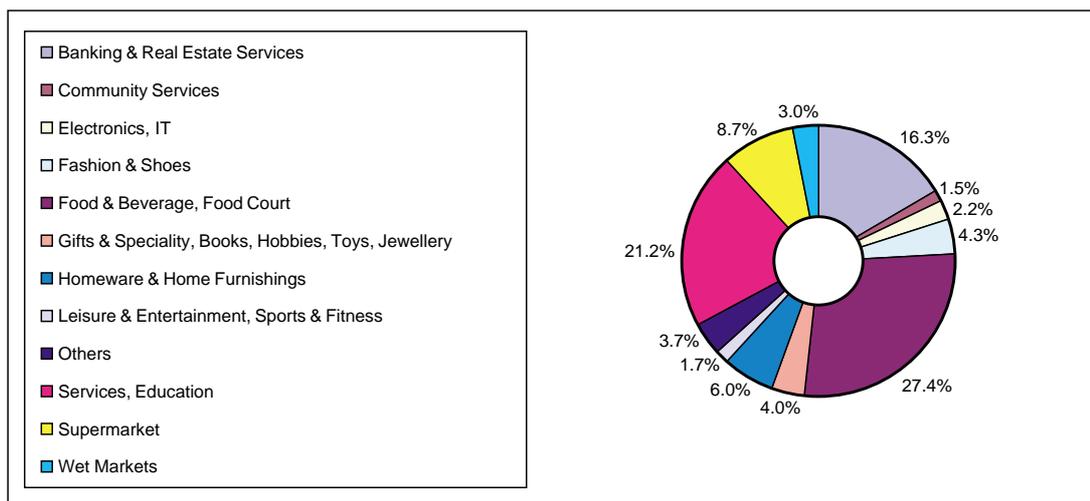


The enlarged portfolio's tenancy expiry profile is reasonably evenly distributed with approximately one-third of the tenancies expiring in each of 2005 and 2006.

**Trade Sub-Sector Analysis for Enlarged Fortune REIT Portfolio (as at 31 December 2004)**

**(a) By Base Rental Income**

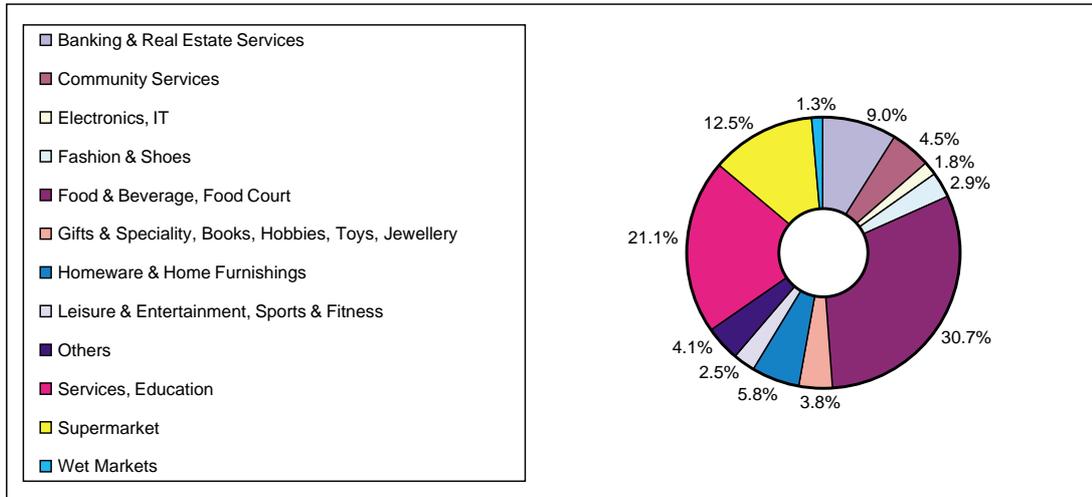
The following chart provides a breakdown by Base Rental Income of the different trade sub-sectors represented in Fortune REIT's enlarged portfolio comprising the Properties and the Existing Properties:



The enlarged portfolio's Base Rental Income was well-diversified. No single trade sub-sector contributed more than 27.4% of the enlarged portfolio's Base Rental Income. The biggest contributor was the Food & Beverage, Food Court trade sub-sector (27.4%), followed by the Services, Education trade sub-sector (21.2%).

**(b) By Gross Rentable Area**

The following chart provides a breakdown by Gross Rentable Area of the different trade sub-sectors represented in Fortune REIT's enlarged portfolio comprising the Properties and the Existing Properties:



No single trade sub-sector occupied more than 30.7% of Fortune REIT's enlarged portfolio's total Gross Rentable Area. The Food & Beverage, Food Court trade sub-sector occupied the most rentable area (30.7%), followed by the Services, Education trade sub-sector (21.1%).

**Top Ten Tenants of the Enlarged Fortune REIT Portfolio by Base Rental Income (as at 31 December 2004)**

The following table sets out selected information about the top ten tenants of Fortune REIT's enlarged portfolio comprising the Properties and the Existing Properties by Base Rental Income:

Tenant	Trade sector	Expiry date <sup>(1)</sup>	Gross Rentable Area (sq ft)	Percentage of total Gross Rentable Area	Percentage of total Base Rental Income <sup>(2)(3)</sup>
Park'N Shop <sup>(4)</sup>	Supermarkets	May 05 Jul 05 Jul 05 Jul 05 Oct 05 Nov 06 Jun 07 Aug 07 Oct 07	14,378 41,178 32,142 11,804 6,376 13,000 9,425 8,229 56,348	11.6	8.2
Clayton Power Enterprises Limited	Banking & Real Estate Services	May 06	32,189	1.9	3.0
Lifestyle Concept Store <sup>(5)</sup>	Homeware and Home Furnishings	May 06	33,854	2.0	2.7
Marketon Investment Limited	Banking & Real Estate Services	Jun 06	31,383	1.9	2.5
The Metropolis Express <sup>(6)</sup>	Food & Beverage, Food Court	May 06	32,622	2.0	2.3
7-Eleven <sup>(7)</sup>	Services, Education	Sep 05 Nov 05 Jan 06 Aug 06 Mar 07 May 07 Aug 07 Sep 07 Oct 07	1,544 2,650 226 321 3,188 556 2,177 892 1,290	0.8	1.8
Maxim's Chinese Restaurant <sup>(8)</sup>	Food & Beverage, Food Court	Aug 05	49,014	2.9	1.7
Watson's <sup>(4)</sup>	Services, Education	Jan 05 Feb 05 Jun 05 May 07 May 07 Aug 07 Sep 07	3,477 4,802 2,475 3,688 979 5,447 1,988	1.4	1.7
Midland Realty Limited <sup>(9)</sup>	Banking & Real Estate Services	Oct 05 Nov 05 Dec 05 May 06 Jul 06 Jul 06 Aug 06 Dec 06	718 719 678 605 665 424 1,257 1,271	0.4	1.6
Bank of China (Hong Kong) <sup>(10)</sup>	Banking & Real Estate Services	Oct 05 Oct 05 May 07	5,853 1,790 1,236	0.5	1.4
<b>Ten Largest Tenants by Total Base Rental Income</b>			422,858	25.4	26.9
Other Tenants			1,171,528	70.1	73.1
Vacant Space			75,392	4.5	—
<b>Total</b>			1,669,778	100.0	100.0

**Notes:**

- (1) Some of the tenants above have signed more than one tenancy agreement and this has resulted in more than one tenancy expiry date for such tenants.
- (2) Based on each tenant's percentage contribution to Base Rental Income of the Property for the month ended 31 December 2004.
- (3) Hutchison Telephone Company Limited and Match Power Investment Limited are monthly licensees of the Existing Properties and the Properties and contributed 1.7% and 1.5% of the aggregate of the total Base Rental Income and licence fees of the enlarged portfolio of Fortune REIT for the month ended 31 December 2004.
- (4) The tenant under the tenancy agreement is A.S. Watson Group (H.K.) Limited.
- (5) The tenant under the tenancy agreement is Marketon Investment Limited.
- (6) The tenant under the tenancy agreement is Harbour Plaza Metropolis Limited.
- (7) The tenant under the tenancy agreement is The Dairy Farm Company Limited.
- (8) The tenant under the tenancy agreement is Maxim's Caterers Limited.
- (9) The tenant under the tenancy agreement is Midland Property Leasing Limited, Midland Property Services Limited, Midland Property Management Company Limited and Midland Property Administration Limited.
- (10) The tenant under the tenancy agreement is Bank of China (HK) Limited.

## PROFIT FORECAST

*Statements contained in this section, which are not historical facts, may be forward-looking statements. Such statements are based on the assumptions set forth in this section and are subject to certain risks and uncertainties which could cause actual results to differ materially from those forecast. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Manager or any other person nor that these results will be achieved or are likely to be achieved.*

The following table sets out, *inter alia*, Fortune REIT's forecast consolidated profit and loss statement for the full year of 2005 in respect of the Existing Properties, the Properties and Fortune REIT's enlarged property portfolio assuming that the Acquisitions were completed on 1 January 2005. It is to be noted that the profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on, or around, 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in **Appendix 2**. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality and the difference in interest rates and tenancy expiry profile, the actual Net Property Income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

The profit forecast for the full year of 2005 in respect of the Existing Properties, the Properties and the enlarged Fortune REIT portfolio has been examined by the Reviewer of the Profit Forecast and the Independent Accountants and should be read together with the DTCF's Statement in **Appendix 3** of this Circular and the Independent Accountants' Report on the Profit Forecast contained in **Appendix 4** of this Circular as well as the assumptions and sensitivity analysis set out below.

## Forecast Consolidated Profit and Loss Statements

(HK\$ million)	Actual	Forecast		
	Full Year 2004	Full year 2005		
	Existing Properties <sup>(1)</sup>	Existing Properties <sup>(2)</sup>	The Properties	Enlarged Fortune REIT portfolio (comprising the Properties and the Existing Properties) <sup>(3)</sup>
<b>Gross Revenue</b>				
Base Rental Income	209.42	209.18	208.82	418.00
Charge-out Collections	70.12	75.65	38.02	113.67
Other income	28.67	26.53	19.80	46.33
<b>Total Gross Revenue</b>	<b>308.21</b>	<b>311.36</b>	<b>266.64</b>	<b>578.00</b>
<b>Property Operating Expenses</b>				
Property management fees	(5.20)	(5.96)	(6.58)	(12.54)
Other property operating expenses	(82.69)	(83.31)	(58.10)	(141.41)
<b>Total Property Operating Expenses (before payment of the Manager's Performance Fee)</b>	<b>(87.89)</b>	<b>(89.27)</b>	<b>(64.68)</b>	<b>(153.95)</b>
<b>Net Property Income (before payment of the Manager's Performance Fee)</b>	<b>220.32</b>	<b>222.09</b>	<b>201.96</b>	<b>424.05</b>
Manager's Performance Fee	(6.61)	(6.66)	(6.06)	(12.72)
<b>Net Property Income</b>	<b>213.71</b>	<b>215.43</b>	<b>195.90</b>	<b>411.33</b>
Interest expense	(19.10)	(31.35)	(51.08)	(82.43)
Hedging loss	—	(0.12)	(0.50)	(0.62)
Commitment fees	(0.37)	(0.38)	(0.13)	(0.51)
<b>Net Profit Before Tax</b>	<b>194.24</b>	<b>183.58</b>	<b>144.19</b>	<b>327.77</b>
Current taxation	(12.90)	(13.57)	(23.81)	(37.38)
Deferred taxation	(21.06)	(18.55)	(1.42)	(19.97)
<b>Total Hong Kong Taxation</b>	<b>(33.96)</b>	<b>(32.12)</b>	<b>(25.23)</b>	<b>(57.35)</b>

	Actual	Forecast		
	Full Year 2004	Full year 2005		
(HK\$ million)	Existing Properties <sup>(1)</sup>	Existing Properties <sup>(2)</sup>	The Properties	Enlarged Fortune REIT portfolio (comprising the Properties and the Existing Properties) <sup>(3)</sup>
<b>Net Profit of Property Companies</b>	<b>160.28</b>	<b>151.46</b>	<b>118.96</b>	<b>270.42</b>
Manager's Base Fee	(10.80)	(12.55)	(10.88)	(23.43)
Negative goodwill <sup>4</sup>	0.00	0.00	158.97	158.97
Amortisation of negative goodwill	3.15	0.00	0.0	0.0
Foreign exchange differences	0.83	0.00	0.0	0.0
Non-tax deductible trust income/ (expenses)	(1.99)	(2.28)	(5.60)	(7.88)
Tax deductible trust expenses	(1.52)	(1.93)	(0.58)	(2.51)
Non tax-exempt income	0.13	0.00	0.00	0.00
<b>Total Trust Expenses</b>	<b>(10.20)</b>	<b>(16.76)</b>	<b>141.91</b>	<b>125.15</b>
<b>Net Profit of Trust</b>	<b>150.08</b>	<b>134.70</b>	<b>260.87</b>	<b>395.57</b>
<b>Add/(less):</b>				
Manager's base fee	10.80	12.55	10.88	23.43
Negative goodwill	0.00	0.00	(158.97)	(158.97)
Amortisation of negative goodwill	(3.15)	0.00	0.00	0.00
Foreign exchange differences	(0.83)	0.00	0.00	0.00
Non-tax deductible trust expenses	1.99	2.28	5.60	7.88
Non tax-exempt income	(0.13)	0.00	0.00	0.00
<b>Income Available For Distribution<sup>5</sup></b>	<b>158.76</b>	<b>149.53</b>	<b>118.38</b>	<b>267.91</b>

**Notes:**

- (1) Based on the actual debt size of HK\$926.0 million.
- (2) Based on the assumption that debt size is HK\$950.0 million.
- (3) Assuming that (i) 325.6 million New Units are issued, (ii) the additional borrowings incurred by Fortune REIT to, *inter alia*, partly fund the Acquisitions increases Fortune REIT's Gearing to 31.5% and (iii) debt size is HK\$2,498.0 million.
- (4) Negative goodwill represents the excess of the group's (which shall mean Fortune REIT and its property companies) interest in the fair value of the identifiable assets and liabilities of a property company at the date of acquisition over the cost of acquisition.
- (5) The profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

## **Assumptions**

The major assumptions made in preparing the forecast consolidated profit and loss statement are set out below. The Manager considers these assumptions to be appropriate and reasonable at the time of issue of the Circular.

### **(I) Gross Revenue**

Gross Revenue is the aggregate of Base Rental Income, Charge-out Collections and all other income accruing or resulting from the operation of the Existing Properties and the Properties including licence fees, Turnover Rent, car parking revenues and other revenues. A summary of the assumptions used in calculating the Gross Revenue is set out below.

#### **(a) Base Rental Income**

Base Rental Income is rental income due from tenancies but excludes Turnover Rent. Rents paid under the lease agreements of the Existing Properties and/or the Properties are generally fixed for a period of two to three years which is the usual market practice in Hong Kong.

The forecast Base Rental Income is based on the contracted rents (excluding Turnover Rent) payable under current lease agreements and the Manager's expectations for any changes on renewals or expiry of leases and the potential for any loss of rent between lease expiry and lease renewal and early termination of leases. Factors taken into account in assessing the expected rental income include the estimated effect of competing properties, assumed tenant retention rates on lease expiry, likely market conditions, inflation levels and tenant demand levels (see sections entitled "Renewal Rate" and "Occupancy Rate" below).

The Manager has used the following process to forecast the Base Rental Income for the applicable period.

The Manager has assessed the market rent for each shop unit in each of the Existing Properties and the Properties as at 31 December 2004. The market rent is the rent which the Manager believes could be achieved if each lease was renegotiated as at 31 December 2004 and is estimated with reference to net rents payable pursuant to comparable leases for tenancies that have been recently negotiated, the effect of competing retail shopping malls, likely market conditions, inflation levels and tenant demand levels. If a tenancy expires in the year ending 31 December 2005, the base rent payable under the new lease or renewed lease is assumed to be the market rent as at 31 December 2004 adjusted by the forecast growth rates stated in paragraph (g) below.

#### **(b) Charge-out Collections**

Fortune REIT's leases generally provide that certain expenses related to the operation of the Existing Properties and the Properties are payable by most tenants and some licensees. These expenses include air conditioning charges, management fees, promotional charges, government rents (where applicable), government rates, utility charges, cleaning and other charges.

The Manager has used the Charge-out Collections payable by tenants under the leases as at 31 December 2004 as the basis for the forecast. If a lease expires in the year ending 31 December 2005, the Manager has assumed that the Charge-out Collections payable by the tenant under the new lease or renewed lease for air conditioning expenses, management expenses and promotional expenses will be the same as the amount payable under the existing tenancy, adjusted by the forecast growth rate of 1.0% per annum.

(c) **Other Income**

Other income includes licence fees, Turnover Rent and car parking revenues accruing or resulting from the operation of the Existing Properties and the Properties.

License fees comprise income derived from the licensing of space for show flats, advertisement space and casual leasing.

Certain tenants have provisions in their leases pursuant to which they are required to pay the higher of either their base rent or a fixed percentage of their monthly sales turnover. Turnover Rent is forecast to contribute approximately 0.2% of Gross Revenue for the financial year ending 31 December 2005.

Car parking revenue includes income accruing from or resulting from the operation of the parking facilities in the Existing Properties and the Properties.

The assessment of other income is based on existing lease and licence agreements, current income collections and the Manager's assessment of the Existing Properties and the Properties as at 31 December 2004.

No interest income is assumed to be earned on Fortune REIT's cash and short-dated investments.

(d) **Renewal Rate**

Fortune REIT's leases generally allow new tenants to enjoy rent-free periods ranging from two weeks to one month during which the tenants will not pay any base rent or Turnover Rent. In preparing this Profit Forecast, it has been assumed that leases representing an average of 70.0% of Base Rental Income and Charge-out Collections expiring in any one year will be renewed and will not have the benefit of any rent-free period. It has been assumed that the remaining leases representing an average of 30.0% of Base Rental Income and Charge-out Collections expiring in any one year will have the benefit of a one-month rent-free period during which base rent and Turnover Rent will not be payable by the tenants. Charge-out Collections are usually payable by tenants during the rent-free period.

(e) **Vacancy Allowance**

For leases representing an average of 30.0% of Base Rental Income and Charge-out Collections expiring in any one period and not renewed, a one-month vacancy period is assumed to come into effect before the commencement of the one-month rent-free period.

(f) **Occupancy rates**

The forecast occupancy rates for the Existing Properties and the Properties are as follows:

<b>Forecast Occupancy Rate<sup>(1)</sup></b>	<b>Financial year ending 31 December 2005</b>
The Metropolis Mall	95.0%
Ma On Shan Plaza	98.9%
The Household Center	98.2%
Smartland	98.8%
Jubilee Court Shopping Centre	96.7%
The City One Shatin Property	96.0%
The Waldorf Garden Property	100.0%
The Tsing Yi Square Property	98.0%

<b>Forecast Occupancy Rate<sup>(1)</sup></b>	<b>Financial year ending 31 December 2005</b>
The Centre de Laguna Property	100.0%
The Lido Garden Property	100.0%
The Rhine Garden Property	100.0%

**Note:**

- (1) Forecast average occupancy rates takes into account forecast vacancy periods between leases. The average occupancy rate for each Existing Property and each Property for the financial year ending 31 December 2005 is derived by dividing the sum of the occupancy rates as at the end of each month for the relevant Existing Property and the relevant Property by the number of months in the relevant year.

The forecast occupancy rates for the Existing Properties and the Properties for the financial year ending 31 December 2005 are based on existing occupancy rates as at 31 December 2004 and assumes the expected market conditions and tenant demand levels.

**(g) Property income growth rates**

The table below summarises the income growth rates assumed for the Profit Forecast based on the Manager's assessment of income growth rates, having taken into account the rates used by the Independent Valuers in the valuations, Chesterton Petty Ltd in its asset enhancement report of the Properties, the Independent Property Consultant in the Retail Market Overview, the outlook for the general economy in Hong Kong, the outlook for retail sales in Hong Kong and the demand level of the existing and prospective tenants at the Existing Properties and the Properties.

The income growth rates have been used to forecast the change in Base Rental Income payable under the new leases (or lease renewals) signed in the financial year ending 31 December 2005. The Base Rental Income growth rates set out below are annualised figures but have been assumed to apply to the relevant data compounded on a monthly basis.

	<b>Full year 2005</b>
The Metropolis Mall	5.0%
Ma On Shan Plaza	3.0%
The Household Center	2.0%
Smartland	2.0%
Jubilee Court Shopping Centre	2.0%
The City One Shatin Property	3.0%
The Waldorf Garden Property	2.0%
The Tsing Yi Square Property	2.0%
The Centre de Laguna Property	2.0%
The Lido Garden Property	2.0%
The Rhine Garden Property	2.0%

## (II) Property Operating Expenses

### (a) Property Management Fee

Under the property management agreement, the Property Manager will receive a fee of 3.0% per annum of the Gross Property Revenue in respect of each Existing Property and Property for the provision of property management services and lease management services. Gross Property Revenue is defined as the Gross Revenue less (i) Charge-outs Collections and (ii) Car parking revenues of each of the Existing Properties and the Properties.

### (b) Other property operating expenses

An individual assessment of other property operating expenses, based on the actual historical operating expenses adjusted for forecast growth rate and other appropriate adjustments, has been made for each of the Existing Properties and the Properties for the financial year ending 31 December 2005. These expenses are associated with the operation of the Existing Properties, the Properties, the Existing Property Companies and the Property Companies, including expenses such as utility charges, commissions for the leasing of units in the Existing Properties and the Properties, insurance premiums, audit and valuation fees, management fee contributions payable under the relevant Deeds of Mutual Covenant, advertising, car parking operations, bad and doubtful debts, repairs, maintenance and service contracts.

Other property expenses include bad and doubtful debts. It is assumed that 0.3% of Gross Revenue<sup>1</sup> will be provided for as doubtful debts, which are included as part of operating expenses. Provision of HK\$1.6 million has been provided for the financial year ending 31 December 2005. It is generally the Manager's policy to require rental deposits equivalent to three months of rental from tenants to mitigate the risk of bad debts.

### (c) Manager's Performance Fee

The Manager is entitled under the Trust Deed to the Performance Fee from the Property Companies of 3.0% per annum of the aggregate Net Property Income of each of the Property Companies.

## (III) Non-Property Expenses

### (a) Manager's Base Fee

The Manager is entitled under the Trust Deed to the Base Fee from Fortune REIT of 0.3% per annum of the Property Values (including the Existing Properties and the Properties). For the forecast period, the Base Fee is assumed to be payable in the form of Units.

### (b) Trust Expenses

Trust Expenses include recurring operating expenses such as the Trustee's fee, annual listing fees, valuation fees, legal fees, registry and depository charges, accounting, audit and tax adviser's fees, postage, printing and stationery costs, costs associated with the preparation of annual reports, investor communications costs and other miscellaneous expenses.

The Trustee's fee is 0.03% per annum of the Property Values (subject to a minimum of HK\$50,000 per month) and is accrued daily and paid monthly in arrears in accordance with the Trust Deed.

---

<sup>1</sup> Excluding car park income and the anticipated top up payments under the rental guarantee deed made between Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Vision Million Limited in relation to The Metropolis Mall.

(c) **Interest Expenses**

The Manager has assumed an average interest rate of 3.3% per annum inclusive of margins for all existing and new debt incurred for the financial year ending 31 December 2005.

Fortune REIT is expected to obtain Facilities aggregating HK\$2,650.0 million comprising a HK\$2,385.0 million term loan facility and a HK\$265.0 million revolving credit facility, each for a term of five years for the purposes of partly financing the Acquisitions and refinancing the borrowings of the Existing Property Companies.

The Facilities will bear interest at HIBOR plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year. The Manager expects to fix the interest rate for the Facilities using interest rate swaps of varying tenors which is likely to result in at least 50.0% of its outstanding amount under the Facilities being on a fixed interest rate basis.

**The Existing Properties and the Properties**

For the period ending 31 December 2004 and the financial year ending 31 December 2005, the Manager has made an assumption that the value of the Existing Properties is HK\$4,184.0 million (based on independent valuations by Chesterton Petty Ltd as at 31 December 2004). The Aggregate Purchase Consideration for the Properties is assumed to be HK\$3,439.0 million.

**Accounting Policies**

It has been assumed that there will be a change in Fortune REIT's accounting policies for the financial year ending 31 December 2005 in the following areas (as a result of accounting standards that are effective in 2005) which will impact Fortune REIT's forecast Net Property Income:

- FRS 103 will be effective for financial years beginning on or after 1 July 2004. FRS 103 requires, among others, negative goodwill be recognised as income in the financial year the negative goodwill arises. For Fortune REIT, upon implementation of FRS 103, the outstanding negative goodwill arising from the acquisition of the Property Companies made before 1 January 2005 will be taken to accumulated profits as at 1 January 2005 and the accounting profit of Fortune REIT for the financial year ending 31 December 2005 will be reduced by approximately HK\$3.2 million arising from the non-amortisation of this negative goodwill. However, the reduced accounting profit will not affect Fortune REIT's distributable income to Unitholders as the amortised negative goodwill is not part of Fortune REIT's distributable income pursuant to the Trust Deed. Similarly the negative goodwill arising from the acquisition of the Target Companies during 2005 will be taken to the profit and loss statement for 2005. Such accounting recognition will not affect Fortune REIT's distributable income to Unitholders as negative goodwill is not part of Fortune REIT's distributable income pursuant to the Trust Deed.
- FRS 39 — Financial Instruments: Recognition and Measurement will be effective for financial periods beginning on or after 1 January 2005. The profit forecast is prepared on the assumption that Fortune REIT will adopt hedge accounting for its outstanding interest rate swaps. The fair value changes relating to the portion of the interest rate swaps where there is hedge effectiveness are taken to equity. Fair value changes relating to the portion of the interest rate swaps where there is no hedge effectiveness will be taken to the profit and loss statement.
- FRS 39 will also require Fortune REIT and the Property Companies to carry the loans from Fortune REIT to the property companies at amortised cost. The profit forecast is prepared on the assumption that the above loans will be restructured into redeemable preference shares, as equity instruments.

FRS 102 — Share Based Payment (“**FRS 102 SBP**”), which will apply to listed entities in Singapore with annual periods beginning on or after 1 January 2005, will require Fortune REIT to reclassify its accrual for the Manager’s Base Fee (which is payable in Units) from the current liability category to equity category. This is not expected to impact Fortune REIT’s profit forecast.

A summary of the other significant accounting policies of Fortune REIT may be found in its annual report for the financial year ended 31 December 2004.

### **Capital Raising**

The forecast has been prepared based on an Issue Price of HK\$6.10 per New Unit on the assumption that the net proceeds from the Equity Fund Raising will be used to partly finance the Acquisitions in accordance with the terms of the Sale and Purchase Agreements.

### **Other Assumptions**

The following additional assumptions have been made in preparing the financial profit forecast:

- Fortune REIT will proceed with the completion of all of the Acquisitions. All analyses and financial forecasts contained in this Circular will vary accordingly in the event that one or more of the Acquisitions does not proceed;
- the Manager’s Acquisition Fee for the Properties will be paid in Units;
- other than the Acquisitions, Fortune REIT’s property portfolio remains unchanged throughout the periods;
- no further capital will be raised during the periods;
- there will be no material changes in taxation legislation or other legislation;
- there will be no material change to the Tax Rulings; and
- all leases are enforceable and will be performed in accordance with their terms, save for the assumptions regarding bad and doubtful debts as detailed above.

It is to be noted that the profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property Income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

### **Sensitivity Analysis**

The forecast distributions included in this Circular are based on a number of key assumptions that have been outlined earlier in this section.

Unitholders should be aware that future events cannot be predicted with any certainty and deviations from the figures forecast in this Circular are to be expected. To assist Unitholders in assessing the impact of these assumptions on the financial profit forecast, a series of tables demonstrating the sensitivity of the DPU to changes in the key assumptions are set out below.

The sensitivity analysis is intended to provide a guide only and variations in actual performance could exceed the ranges shown. Movements in other variables may offset or compound the effect of a change in any variable beyond the extent shown.

The base case of the sensitivity analysis assumes that Fortune REIT's Gearing as at 31 December 2005 is 31.5%. The assumed increased Gearing of 31.5% is based on the ratio of total borrowings of HK\$2,498.0 million (comprising Fortune REIT's existing borrowings of HK\$950.0 million and proposed additional borrowings of HK\$1,548.0 million) to the Deposited Property of HK\$7,930.1 million as at 31 December 2005.

### Base Rental Income growth rates

Changes in Base Rental Income growth rates for retail leases expiring in the forecast year impact the Net Property Income of Fortune REIT. The income growth rates adopted are set out earlier in this section. The impact of variations in the growth rates on distributions as at 31 December 2005 is set out below:

Assuming an Issue Price of	HK\$5.90	HK\$6.90
	DPU (HK cents)	DPU (HK cents)
2.0% above estimate for the Existing Properties and the Properties	32.66	34.79
Base case	32.59	34.71
2.0% below estimate for the Existing Properties and the Properties	32.54	34.65

### Property Operating Expenses

Changes in Property Operating Expenses affect the net profit of Fortune REIT. The effect of variations in Property Operating Expenses on distributions as at 31 December 2005 is set out below:

Assuming an Issue Price of	HK\$5.90	HK\$6.90
	DPU (HK cents)	DPU (HK cents)
1.0% above estimates	32.44	34.55
Base case	32.59	34.71
1.0% below estimates	32.74	34.87

### Interest Expenses

Changes in interest rates will impact the net profit of Fortune REIT. The interest rate assumptions are set out earlier in this section. The impact of variations in the interest rates on distributions as at 31 December 2005 is set out below:

Assuming an Issue Price of	HK\$5.90	HK\$6.90
	DPU (HK cents)	DPU (HK cents)
25 bps above estimates	31.96	34.04
Base case	32.59	34.71
25 bps below estimates	33.22	35.38

### Occupancy rate for the City One Shatin Property

The rationale for conducting a sensitivity analysis on the City One Shatin Property is based on it contributing 35.0% to the Net Property Income for the financial year ending 31 December 2005 of the Existing Properties and the Properties.

Changes in the occupancy rate for the City One Shatin Property will have the most significant impact on the Net Property Income of Fortune REIT. The occupancy rate for the City One Shatin Property for the financial year ending 31 December 2005 is set out earlier in this section. The impact of variations in the occupancy rate for the City One Shatin Property on distributions as at 31 December 2005 is set out below:

<b>Assuming an issue price of</b>	<b>HK\$5.90</b>	<b>HK\$6.90</b>
	<b>DPU (HK cents)</b>	<b>DPU (HK cents)</b>
Average occupancy rate — 97.0%	32.67	34.80
Base case average occupancy rate — 96.0%	32.59	34.71
Average occupancy rate — 95.0%	32.50	34.62

**DTCF'S REPORT ON PROFIT FORECAST**

13 May 2005

The Board of Directors  
ARA Asset Management (Singapore) Limited  
(as Manager of Fortune REIT)  
9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
(as Trustee of Fortune REIT)  
21 Collyer Quay  
#10-01 HSBC Building  
Singapore 049320

Dear Sirs

**Letter on the Profit Forecast for the Financial Year Ending 31 December 2005****Introduction**

This letter has been prepared for inclusion in the circular (the "Circular") to be issued to the unitholders of Fortune Real Estate Investment Trust ("Fortune REIT") in relation to the proposed acquisition of the City One Shatin Property, the Waldorf Garden Property, the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property and the issue of new units in Fortune REIT.

We are licensed under a capital markets services licence to provide corporate finance advisory services and have been appointed to review the assumptions used as a basis in preparation of the profit forecast (the "assumptions") of the enlarged Fortune REIT pursuant to the Acquisitions for the year ending 31 December 2005 (the "profit forecast") and to provide a statement as to whether following our examination of the evidence supporting the assumptions any matter has come to our attention which gives us reason to believe that the assumptions do not provide reasonable grounds for the profit forecast.

The expressions defined in the Circular have the same meaning in this letter.

**Scope**

The directors of ARA Asset Management (Singapore) Limited are solely responsible for the preparation of the profit forecast, which is set out on pages 44 and 45 of the Circular. This includes ensuring that the assumptions used in preparation of the profit forecast are stated in the Circular.

We have reviewed the assumptions on which the profit forecast are based. The assumptions used in the preparation of the profit forecast are set out on pages 112 to 117 of the Circular.

In carrying out our review, we have had discussions with the management of ARA Asset Management (Singapore) Limited to better understand the assumptions used in preparation of the profit forecast and have applied our professional judgement in determining the nature, timing and extent of review procedures.

We have reviewed the source of the evidence used by the management of ARA Asset Management (Singapore) Limited in arriving at the assumptions for the profit forecast and the adequacy and reliability of the supporting evidence. In carrying out this review, we considered evidence from internal and

external sources including the relevant historical performance, wherever practicable, to ascertain the consistency of the profit forecast with the historical performance.

We also considered whether the assumptions were based on the business plans of Fortune REIT as disclosed in the Circular and are consistent with the purpose of the profit forecast, and whether there is any reason to believe that they are clearly unrealistic.

In carrying out our review, we also focused on the extent to which those assumptions that are particularly sensitive to variation have a material effect on the profit forecast. The extent of such sensitivity was one of the factors which influenced the extent of the evidence which we sought to obtain. We also considered the inter-relationship between the stated assumptions.

We have also considered the letter dated 13 May 2005 addressed to the board of directors of ARA Asset Management (Singapore) Limited and to HSBC Institutional Trust Services (Singapore) Limited prepared by Deloitte & Touche, Certified Public Accountants, relating to their examination of the profit forecast (as defined in their letter) in accordance with Singapore Standard on Assurance Engagements, SSAE 3400, applicable to The Examination of Prospective Financial Information insofar as the profit forecast is properly prepared based on the assumptions and is consistent with the accounting policies of Fortune REIT.

For the purpose of rendering this letter, we have relied upon and assumed the accuracy and completeness of all financial and other information provided to, or discussed with us.

### **Statement**

We draw the attention of unitholders to the fact that, the profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on, or around, 28 June 2005, benefits from the Properties will accrue to Fortune REIT for the period commencing on, or around, 29 June 2005 and ending 31 December 2005. As a result the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be materially different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property Income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of their Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield.

On the basis of our examination of the evidence supporting the assumptions, nothing has come to our attention which gives us reason to believe that these assumptions do not provide reasonable grounds for the profit forecast.

Our letter should be read together with the sensitivity analysis of the profit forecast of the directors of ARA Asset Management (Singapore) Limited set out on pages 117 to 119 of the Circular.

We do not accept responsibility for the realisation of the profit forecast. In addition, we emphasise that since the profit forecast relates to the future and is based on hypothetical assumptions about future events, actual results are likely to be different from the forecast results because events and circumstances frequently do not occur as expected, and the difference may be material.

Yours faithfully  
For and on behalf of  
**Deloitte & Touche Corporate Finance Pte Ltd**

Andrew Grimmett  
Director

**INDEPENDENT ACCOUNTANTS' REPORT ON THE PROFIT FORECAST**

13 May 2005

The Board of Directors  
ARA Asset Management (Singapore) Limited  
(as Manager of Fortune REIT)  
9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
(as Trustee of Fortune REIT)  
21 Collyer Quay  
#10-01 HSBC Building  
Singapore 049320

Dear Sirs

**Letter from the Reporting Accountants on the Profit Forecast for the Financial Year Ending 31 December 2005**

This letter has been prepared for inclusion in the circular (the "**Circular**") to be issued to the unitholders of Fortune Real Estate Investment Trust ("**Fortune REIT**") in relation to the proposed acquisition of the City One Shatin Property, the Waldorf Garden Property, the Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property and the issue of new units in Fortune REIT.

The directors of ARA Asset Management (Singapore) Limited are responsible for the preparation and presentation of the profit forecast for the financial year ending 31 December 2005 (the "**profit forecast**") set out on pages 44 to 45 of the Circular, which have been prepared on the assumptions set out on pages 112 to 117 of the Circular. A review of the reasonableness of the assumptions on which the profit forecast is based has been performed by Deloitte & Touche Corporate Finance Pte Ltd whose report thereon is set out on pages 120 to 121 of the Circular. Our responsibility is to examine and report on the calculations, accounting policies and presentation of the profit forecast.

We have examined, as reporting accountants, the profit forecast of Fortune REIT for the financial year ending 31 December 2005 set out on pages 44 to 45 of the Circular, in accordance with Singapore Standard on Assurance Engagements, SSAE 3400, applicable to The Examination of Prospective Financial Information. The Directors are solely responsible for the profit forecast including the assumptions set out on pages 112 to 117 of the Circular on which the profit forecast is based.

In our opinion, the profit forecast, in so far as the accounting policies and calculations are concerned, is properly prepared based on the assumptions set out on pages 112 to 117 of the Circular, is consistent with the accounting policies normally adopted by Fortune REIT, and is presented in accordance with the relevant principles of Singapore Financial Reporting Standards (but not all the required disclosures) as at the date of this report.

Events and circumstances frequently do not occur as expected. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the forecast since other anticipated events frequently do not occur as expected and the variation may be material. The actual result may therefore differ materially from the forecast. For the reasons set out above, we do not express any opinion as to the possibility of the achievement of the profit forecast.

Attention is drawn, in particular, to the following:

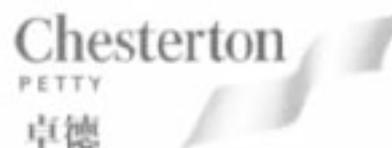
- (a) the profit forecast is prepared for a period of 12 months ending 31 December 2005 whereas assuming that the Acquisitions are completed on or around 28 June 2005, the benefits from the Properties will accrue to Fortune REIT for only the second half of 2005. As a result, the actual Net Property Income of Fortune REIT for the year ending 31 December 2005 will be different from that indicated in Appendix 2. As such, the profit forecast should be regarded as an illustration of the Net Property Income of Fortune REIT had the Acquisitions been completed on 1 January 2005. In addition, due to seasonality, the difference in interest rates and tenancy expiry profile, the actual Net Property income for the second half of 2005 in respect of the Properties may not be equal to 50.0% of the Net Property Income forecast. Accordingly, the actual yield may also be different from the forecast yield; and
- (b) sensitivity analysis of the profit forecast of the directors of ARA Asset Management (Singapore) Limited set out on pages 117 to 119 of the Circular.

Yours faithfully

Deloitte & Touche  
Certified Public Accountants  
Singapore

Cheng Ai Phing  
Partner

## CHESTERTON SUMMARY VALUATION REPORT



Our Ref GV/CC/ES/TL/JT/cl/03-0446(31-36)

10 May 2005

HSBC Institutional Trust Services (Singapore) Limited  
(as Trustee of Fortune REIT)  
21 Collyer Quay  
#10-01 HSBC Building  
Singapore 049320

ARA Asset Management (Singapore) Limited  
(as Manager of Fortune REIT)  
9 Temasek Boulevard  
#09-01 Suntec City 2  
Singapore 038989

International Property Consultants

Chesterton Petty Ltd  
16/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

Tel: (852) 2840 1177  
Fax: (852) 2840 0600

Dear Sirs

- (1) CITY ONE PLAZA, 1 NGAN SHING STREET, NGAN SHING COMMERCIAL CENTRE, 2 NGAN SHING STREET, CITY ONE MARKET, 6 LOK SHING STREET AND VARIOUS GROUND FLOOR SHOPS OF RESIDENTIAL TOWERS, CITY ONE SHATIN, SHA TIN, NEW TERRITORIES, HONG KONG ("CITY ONE SHATIN PROPERTY")
- (2) SHOPS ON LEVEL 3 AND VARIOUS CARPARKS, WALDORF GARDEN, 1 TUEN LEE STREET, TUEN MUN, NEW TERRITORIES, HONG KONG ("WALDORF GARDEN PROPERTY")
- (3) TSING YI SQUARE AND CARPARKS, TSING YI GARDEN, 7-19 TSING LUK STREET, TSING YI, NEW TERRITORIES, HONG KONG ("TSING YI SQUARE PROPERTY")
- (4) CENTRE DE LAGUNA, 95 CHA KWO LING ROAD, KINDERGARTEN ON GROUND FLOOR, 99 CHA KWO LING ROAD, KWUN TONG, KOWLOON, HONG KONG ("CENTRE DE LAGUNA PROPERTY")
- (5) SHOPS ON GROUND FLOOR, LIDO GARDEN, 41-63 CASTLE PEAK ROAD, SHAM TSENG, TSUEN WAN, NEW TERRITORIES, HONG KONG ("LIDO GARDEN PROPERTY")
- (6) SHOPS ON GROUND FLOOR, RHINE GARDEN, 38 CASTLE PEAK ROAD, SHAM TSENG, TSUEN WAN, NEW TERRITORIES, HONG KONG ("RHINE GARDEN PROPERTY")  
(COLLECTIVELY THE "PROPERTIES")

This valuation has been prepared for the purposes of inclusion in the Circular to be issued in relation to the proposed acquisition by Fortune Real Estate Investment Trust ("Fortune REIT").

.../2

[www.chesterton.com.hk](http://www.chesterton.com.hk)

EAA Company Licence No C-010431

Chesterton Asia-Pacific

Beijing • Brisbane • Chennai • Guangzhou • Hanoi • Ho Chi Minh City • Hong Kong •  
Mumbai • New Delhi • Phuket • Shanghai • Singapore • Sydney



903 9031 / 2000  
Certificate No. 106017

10 May 2005  
ARA Asset Management (Singapore) Limited  
HSBC Institutional Trust Services (Singapore) Limited  
Page 2

In accordance with the instructions from HSBC Institutional Trust Services (Singapore) Limited (as Trustee of Fortune REIT) for us to value each of 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 value of the each of the Properties as at 31 January 2005.

Our valuation is our opinion of the market values of the Properties 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, deferred term contracts, joint ventures, management agreements, 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.

Where applicable, information such as the title particulars, land area, ownership and tenure has been obtained from searches carried out at the Land Registry of Hong Kong. We have also relied on the information provided by the owners of the Properties on matters such as gross rentable areas, tenancy details, ground lease expiry, ground rent, annual value, etc. All information provided to us is treated as correct and we accept no responsibility for subsequent changes in information and reserve the right to change our opinion of value if any other information provided were to materially change.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Properties, nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Properties are free from any major or material encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have inspected the exterior of the Properties and where possible, we have also inspected the interior of the premises. 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 from rot, infestation or any other structural defect. No tests were carried out to any of the services.

In arriving at our opinion of value, we have considered the prevailing market conditions, especially those pertaining to the retail sectors of the property market. The valuation methods adopted to arrive at our opinion of value are the Investment Method, Direct Comparison Method and Discounted Cash Flow Analysis. Each method has been used as a check against the others.

.../3

10 May 2005  
ARA Asset Management (Singapore) Limited  
HSBC Institutional Trust Services (Singapore) Limited  
Page 3

A summary of the particulars of each portion of the Properties, our valuation and the Internal Rate of Return (IRR) and Terminal Yield adopted in our valuation is given below:-

Premises	Approximate Gross Floor Area (sq ft)	No. of Parking Lots	Valuation as at 31 January 2005 (HK\$)	IRR (%)	Terminal Yield (%)
City One Shatin Property	414,469	986	2,760,000,000	8.00	6.50
Waldorf Garden Property	80,842	73	450,000,000	7.50	6.00
Tsing Yi Square Property	78,836	27	250,000,000	8.35	6.85
Centre de Laguna Property	43,000	N/A	145,000,000	7.75	6.25
Lido Garden Property	9,836	N/A	80,000,000	8.20	6.70
Rhine Garden Property	14,604	N/A	50,000,000	8.20	6.70
Total	641,587	1,086	3,735,000,000		

We are of the opinion that the market value of each of the Properties is stated in the fourth column of the table above and the aggregate market value of the Properties as at 31 January 2005 was in the sum of HK\$3,735,000,000 (HONG KONG DOLLARS THREE BILLION SEVEN HUNDRED AND THIRTY FIVE MILLION).

The details of individual portions of the Property are attached to this letter.

This valuation summary is for the use of ARA Asset Management (Singapore) Limited (the Manager), the board of directors of the Manager, the Trustee and Underwriters for the equity fund raising in connection with the proposed acquisition of the Properties and the debt providers of Fortune REIT for acquisition purposes. No responsibility is accepted to any other party for the whole or any part of its contents.

We have prepared this valuation summary which appears in this Circular and specially disclaim liability to any person in the event of any omission from or false or misleading statement included in the Circular, other than in respect of the information provided within the valuation report and summary. We do not make any warranty or representation as to the accuracy of the information in any part of the Circular other than as expressly made or given in this valuation summary.

We have relied upon the property data supplied by the Manager which we assume to be true and accurate. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

.../4

10 May 2005  
ARA Asset Management (Singapore) Limited  
HSBC Institutional Trust Services (Singapore) Limited  
Page 4

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 and Underwriters or other party/parties whom the 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 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 authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

Yours faithfully  
For and on behalf of  
Chesterton Petty Limited



Charles C K Chan  
MSc FRICS FHKIS MCI Arb RPS(GP)  
Executive Director

Enc

**CITY ONE SHATIN PROPERTY**

Address of Premises	:	City One Plaza 1 Ngan Shing Street Ngan Shing Commercial Centre 2 Ngan Shing Street City One Market 6 Lok Shing Street Various Ground Floor Shops of Residential Towers City One Shatin Sha Tin New Territories Hong Kong
Number of Parking Lots	:	986
Lot Number	:	Sections B, C, L and the Remaining Portion of Sha Tin Town Lot No. 1
Tenure	:	For a term expiring on 30 June 2047
Registered Owner (as at 22 March 2005)	:	Million Nice Development Limited
Brief Description	:	<p>The property mainly comprises various commercial areas within City One Shatin. Descriptions of the said commercial areas are set out below:-</p> <ul style="list-style-type: none"> <li>- the free standing commercial podium known as Ngan Shing Commercial Centre (Commercial Block A) at the Ground Floor, 4th Floor and the Roof;</li> <li>- the free standing commercial podium known as City One Plaza (Commercial Block B) at the Ground Floor, 1st Floor and portion of the Roof, Roof Garden, Centre Garden and kiosks thereof;</li> <li>- the wet market and kindergarten below residential tower blocks 34-36 at Ground Floor; and</li> <li>- various single shops and non-domestic units dispersed throughout the development at the Ground Floor level of 12 individual tower blocks.</li> </ul>

Ngan Shing Commercial Centre is a 5-storey shopping centre with the Ground Floor and the 4th Floor designed for retail uses whereas the 1st to 3rd Floors for carparking uses. The main entrance of the shopping centre is located on the Ground Floor at Ngan Shing Street with three side entrances abutting Tak Lee Street, Pak Tak Street and Pak Lee Street. Vertical access within the shopping centre is served by various staircases and passenger lifts.

City One Plaza is a 5-storey shopping centre with the Ground Floor, 1st Floor and the 4th Floor designed for retail uses whereas the 2nd and the 3rd Floors for carparking uses. The main entrance of the shopping centre is located on the Ground Floor at Ngan Shing Street with various side entrances scattered along Pak Tak Street, Po Shing Street and Cheung Shing Street. Vertical access within the shopping centre is served by four pairs of escalators, various staircases and passenger lifts.

The Ground Floor of the podium of Blocks 34-36 of the development comprises a wet market with 93 stalls (known as City One Market) and a kindergarten.

The property also comprises various individual shop units on the Ground Floor of residential blocks. These retail units include Shop Nos. A and B on Ground Floor of Blocks 1, 3, 7, 11, 12, 16, 18 and 22, Nursery on Ground Floor of Block 3, Kindergarten on Ground Floor of Block 10 and Non-domestic Unit on Ground Floor of Blocks 17, 23 and 32.

Gross Floor Area	:	Approximately 414,469 sq ft
Year of Completion	:	1981-1989
Current Occupancy Rate	:	95.3% (as at 31 January 2005)
Annual Value	:	Approximately HK\$168,000,000
Town Planning Zoning	:	Residential (Group A)
Market Value as at 31 January 2005	:	HK\$2,760,000,000

**WALDORF GARDEN PROPERTY**

Address of Premises	:	Shops on Level 3 and Various Carparks Waldorf Garden 1 Tuen Lee Street Tuen Mun New Territories Hong Kong
Number of Parking Lots	:	73 and bicycle parking areas on Level 1 and Level 2
Lot Number	:	Tuen Mun Town Lot No. 194
Tenure	:	For a term expiring on 30 June 2047
Registered Owner (as at 22 March 2005)	:	Waldorf Realty Limited
Brief Description	:	<p>The Property comprises a retail floor on the Level 3 of a 4-storey commercial / parking / recreational podium of a residential development known as Waldorf Garden, which consists of five residential tower blocks.</p> <p>Level 3 of the shopping centre is partitioned into 27 shop units mainly occupied by trades of food &amp; beverage, fashion, jewelry, with the largest floor space occupied by a restaurant. It has one principal corridor orientated on a north-south axis and a direct connection into Tuen Mun Town Plaza. They form a major focal point for commercial activities in the New Town.</p>
Gross Floor Area	:	Approximately 80,842 sq ft
Year of Completion	:	1982
Current Occupancy Rate	:	100% (as at 31 January 2005)
Annual Value	:	Approximately HK\$26,000,000
Town Planning Zoning	:	Commercial/Residential
Market Value as at 31 January 2005	:	HK\$450,000,000

**TSING YI SQUARE PROPERTY**

Address of Premises	:	Tsing Yi Square Tsing Yi Garden 7-19 Tsing Luk Street Tsing Yi New Territories Hong Kong
Number of Parking Lots	:	27
Lot Number	:	Tsing Yi Town Lot No. 101
Tenure	:	For a term expiring on 30 June 2047
Registered Owner (as at 22 March 2005)	:	Fortune Port Group Limited
Brief Description	:	<p>The property comprises 48 shops on the Ground Floor and various shops on the 1st Floor in the shopping centre known as Tsing Yi Square, of a commercial/residential development known as Tsing Yi Garden.</p> <p>Ground Floor of the property is partitioned into various shop units with individual frontage/return frontage onto Tsing Luk Street and the internal roads within the development. The main entrance to 1st Floor of the property is located on the Ground Floor in between Block 2 and Block 3 of the development. Portion of the shop units on 1st Floor are facing the footbridges connecting to Tsing Yi Estate, Mei Lok Uk Village and the Tsing Yi Complex. Vertical access within the shopping centre is by means of two escalators and various staircases.</p>
Gross Floor Area	:	Approximately 78,836 sq ft
Year of Completion	:	1986
Current Occupancy Rate	:	98.8% (as at 31 January 2005)
Annual Value	:	Approximately HK\$17,800,000
Town Planning Zoning	:	Residential (Group A)
Market Value as at 31 January 2005	:	HK\$250,000,000

**CENTRE DE LAGUNA PROPERTY**

Address of Premises	:	Centre De Laguna 95 Cha Kwo Ling Road Kindergarten on Ground Floor 99 Cha Kwo Ling Road Kwun Tong Kowloon Hong Kong
Number of Parking Lots	:	N/A
Lot Number	:	New Kowloon Inland Lot No. 6100
Tenure	:	From 31 October 1989 to 30 June 2047
Registered Owner (as at 22 March 2005)	:	Fortune Port Group Limited
Brief Description	:	<p>The property comprises the commercial area on the Ground Floor of the commercial development known as Centre de Laguna and the kindergarten of Blocks 32 to 38 of Laguna City.</p> <p>The two main entrances of the Centre De Laguna are located on Ground Floor abutting Cha Kwo Ling Road and Sin Fat Road. Access to Upper Ground Floor is by means of an exclusive staircase leading from Ground Floor abutting Cha Kwo Ling Road. A passenger lift for exclusive use and a pair of common staircases are also provided for vertical access.</p> <p>Ground Floor of the shopping centre accommodates mainly smaller shops for various trades including property agency, salons, beauties, interior decorations and restaurants, etc. A larger space shop occupied by a Chinese restaurant is located at the rear portion of the property. Whole of Upper Ground Floor of the property is currently occupied as a church.</p> <p>The main entrance of the kindergarten is located on the Ground Floor abutting Cha Kwo Ling Road.</p>
Gross Floor Area	:	Approximately 43,000 sq ft
Year of Completion	:	1992
Current Occupancy Rate	:	100% (as at 31 January 2005)
Annual Value	:	Approximately HK\$10,000,000

Town Planning Zoning : Residential (Group A; Sub-group 2)  
Market Value : HK\$145,000,000  
as at 31 January 2005

**LIDO GARDEN PROPERTY**

Address of Premises	:	Shops on Ground Floor Lido Garden 41-63 Castle Peak Road Sham Tseng Tsuen Wan New Territories Hong Kong
Number of Parking Lots	:	N/A
Lot Number	:	Tsuen Wan Marine Lot No. 4
Tenure	:	For a term expiring on 30 June 2047
Registered Owner (as at 22 March 2005)	:	Fortune Port Group Limited
Brief Description	:	The property comprises various shops units on the Ground Floor at the northern fringe of the site boundary of the commercial/residential development known as Lido Garden. The shops are in the form of street shops and each has a frontage facing Castle Peak Road – Sham Tseng.
Gross Floor Area	:	Approximately 9,836 sq ft
Year of Completion	:	1989
Current Occupancy Rate	:	100% (as at 31 January 2005)
Annual Value	:	Approximately HK\$5,700,000
Town Planning Zoning	:	Residential (Group A)
Market Value as at 31 January 2005	:	HK\$80,000,000

**RHINE GARDEN PROPERTY**

Address of Premises	:	Shops on Ground Floor Rhine Garden 38 Castle Peak Road Sham Tseng Tsuen Wan New Territories Hong Kong
Number of Parking Lots	:	N/A
Lot Number	:	Lot No. 261 in Demarcation District No. 390
Tenure	:	From 1 September 1990 to 30 June 2047
Registered Owner (as at 22 March 2005)	:	Fortune Port Group Limited
Brief Description	:	<p>The property comprises various retail portions on the Ground Floor of the 3-storey podium of a commercial/residential development with ancillary carparking and recreational facilities known as Rhine Garden.</p> <p>In particular, the property comprises three shops units and a restaurant on portion of the Ground Floor of the development, namely Shops E, F and H3 and Restaurant B on Ground Floor. The shops and restaurant are in the form of street shops and each has a frontage facing Castle Peak Road – Sham Tseng. According to the information provided, Restaurant B and Shops E and F of the property are merged and used as a restaurant.</p>
Gross Floor Area	:	Approximately 14,604 sq ft
Year of Completion	:	1992
Current Occupancy Rate	:	100% (as at 31 January 2005)
Annual Value	:	Approximately HK\$2,800,000
Town Planning Zoning	:	Residential (Group A; Sub-group 1)
Market Value as at 31 January 2005	:	HK\$50,000,000

## VIGERS APPRAISAL SUMMARY VALUATION REPORT

**VIGERS**

International Property Consultants

10/F The Grande Building,  
398 Kwun Tong Road, Kowloon, Hong Kong  
Tel: (852) 2810 1100 Fax: (852) 2153 9190  
www.vigers.com



Our Ref. : GYKM/SLLI/VA4016-2005

Date : 10 May 2005

Vigers Appraisal & Consulting Limited  
International Asset Appraisal Consultant

10th Floor, the Grande Building,  
398 Kwun Tong Road,  
Kowloon, Hong Kong

HSBC Institutional Trust Services (Singapore) Limited (as Trustee of Fortune REIT)  
21 Collyer Quay  
#10-01 HSBC Building  
Singapore 049320

ARA Asset Management (Singapore) Limited (as Manager of Fortune REIT)  
9 Temasek Boulevard  
#09-01 Suntec City 2  
Singapore 038989

Dear Sirs,

**RE : VALUATION OF THE MARKET VALUES FOR THE FOLLOWING PROPERTIES:**

- (1) Ngan Shing Commercial Centre, No. 2 Ngan Shing Street, City One Shatin; and City One Plaza, No. 1 Ngan Shing Street, City One Shatin; and City One Market, No. 6 Lok Shing Street, City One Shatin; and Shops and non-domestic units on G/F Level of various residential blocks, City One Shatin, Shatin, New Territories, Hong Kong ("City One Shatin Property");
- (2) Various Retail Shops on Level 3 of Waldorf Arcade and 73 car parking spaces and bicycle parking areas on Level 1 and Level 2 amid Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong ("Waldorf Garden Property");
- (3) Various Retail Shops on the Ground and First Floor in Tsing Yi Square and 27 car parking spaces on the basement amid Tsing Yi Garden, Nos. 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong ("Tsing Yi Square Property");
- (4) Centre de Laguna, No. 95 Cha Kwo Ling Road and a Kindergarten located on Ground Floor of No. 99 Cha Kwo Ling Road, Laguna City, Yau Tong, Kowloon, Hong Kong ("Centre de Laguna Property");

威格斯 國際物業顧問 香港九龍觀塘道398號威格城大廈10樓

Hong Kong Singapore Beijing Shanghai Guangzhou Seoul Taipei Bangkok Tokyo Kuala Lumpur Johor Bahru Penang  
Sabah Jakarta Surabaya New York Chicago San Francisco Los Angeles London Hamburg Brussels Barcelona Amsterdam Paris



(Continued)

- (5) Various Shops on portion of the Ground Floor of Lido Garden, Nos. 41-63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong ("Lido Garden Property"); and
  - (6) Various Shops on Ground Floor of Rhine Garden, No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong ("Rhine Garden Property").
- 

This valuation summary has been prepared for the purposes of inclusion in the Circular to be issued in relation to the asset acquisition regarding of the above-mentioned properties (referred hereinafter as "Property" for individual property and collective as the "Properties") to Fortune Real Estate Investment Trust ("Fortune REIT") for public disclosure.

In accordance with your instructions for us to value the Properties, we confirm that we have carried our 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 value of each of the Property as at 31 January 2005 (referred hereinafter as the "Date of Valuation").

Our valuation is our opinion of the market value which we would define as intended to mean - "the price at which each of the Property might reasonably be expected to be sold by private treaty as at the Date of Valuation assuming:-

- (a) a willing, but not anxious, buyer and seller;
- (b) a reasonable period within which to negotiate the sale, having regard to the nature and situation of the relevant Property and the state of the market for property of the same kind;
- (c) the relevant Property will be reasonably exposed to the market;
- (d) no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the relevant Property being valued;
- (e) the owner to the relevant Property has sufficient resources to allow a reasonable period for the exposure of the relevant Property for sale; and
- (f) the owner to the relevant Property has sufficient resources to negotiate an agreement for the sale of the relevant Property."

In arriving at our opinion of value, we have taken into a detail study regarding the prevailing market conditions for retail sectors of the property market in Hong Kong as at the Date of Valuation. We have made reference to the following three methodologies, namely the Direct Comparison Approach, the Investment Approach and Discounted Cash Flow Analysis.

First, we have valued the relevant Property on a market basis by Direct Comparison Approach assuming sale of the Property in its existing state on a strata-titled basis by making reference to comparable market transactions as available. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar property interests, subject to allowance for variable factors. The result obtained from Direct Comparison Approach serves as a general guideline for values of the relevant Property.

Furthermore, we have also valued the relevant Property by Investment Approach that serves as a counter checking approach to our valuation. The methodology takes into account the current rent passing of the relevant Property and the reversionary potential of the tenancies. A suitable capitalisation rate is chosen in order to reflect the quality of the relevant Property.

Finally, we have valued the relevant Property by using Discount Cash Flow Analysis. This methodology converses the expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for an asset than the amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk. The advantage of this methodology is its ability to give projection to both rental and capital growth over an assumed investment horizon.

Our valuation has been made on the assumption that the owner sells the Properties in the market in their existing state without the benefit of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to increase the values of the Properties. Moreover, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the Properties and no forced sale situation in any manner is assumed in our valuation.

Moreover, where applicable, information such as the title particulars, land area ownership and tenure has been obtained from searches carried out at the Land Registry of Hong Kong. We have relied to a considerable extent on the information provided by the owner regarding the Properties on such matters as the gross floor areas, tenancy particulars, ground lease expiry, government rents and annual values, etc. All information provided to us is treated as precise and we shall have no responsibility for subsequent changes in information and reserve the right to change our opinion of value if any other information provided were materially changed.

We have inspected the exterior of the Properties and, where possible, the interior of the premises. However, we have not carried out structural surveys nor have we inspected woodwork or other parts of the structures that are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the Properties are free from defect. We are not able to report that the Properties are free from rot, infestation or any other structural defect. No tests have been carried out to any of the services.

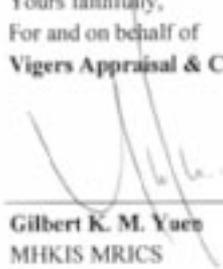
No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrance restrictions and outgoings of an onerous nature, which could affect their values.

This valuation summary is for the use of ARA Asset Management (Singapore) Limited (the Manager), the board of directors of the Manager, the Trustee, the Underwriters for the equity fund raising in connection with the proposed acquisition of the Properties and the debt providers of Fortune REIT for acquisition purposes. In accordance with our standard practice, this report is for the use of the parties to whom it is addressed and no responsibility is accepted to any third party in the event of any omission from or false or mis-interpretation of, the information contained herein.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The exchange rate used in valuing the relevant Property in Hong Kong as at 31 January 2005 was HK\$ 1 = SGD 0.21. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of valuation together with our valuation certificates.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**



---

**Gilbert K. M. Yuen**  
MHKIS MRICS  
Director

**SUMMARY OF VALUATION**

<b>Property</b>	<b>IRR (%)</b>	<b>Terminal Yield (%)</b>	<b>Gross Floor Area (sq. ft.)</b>	<b>Market Value in existing state as at 31 January 2005</b>
1. City One Shatin Property	6.69%	5.50%	414,469	HK\$ 2,680,000,000
2. Waldorf Garden Property	7.28%	6.00%	80,842	HK\$ 430,000,000
3. Tsing Yi Square Property	8.14%	7.00%	78,836	HK\$ 250,000,000
4. Centre de Laguna Property	8.04%	7.00%	43,000	HK\$ 156,000,000
5. Lido Garden Property	8.17%	7.00%	9,836	HK\$ 80,000,000
6. Rhine Garden Property	8.09%	7.50%	14,604	HK\$ 43,000,000
<b>Grand-total:</b>			<b>641,587</b>	<b>HK\$ 3,639,000,000</b>

VALUATION CERTIFICATE

**City One Shatin Property – Including the Ngan Shing Commercial Centre, the City One Plaza, the City One Market and various shops and non-domestic units on the Ground Floor of various residential blocks amid City One Shatin**

Property Address	: Ngan Shing Commercial Centre, No.2 Ngan Shing Street, City One Shatin;  City One Plaza, No.1 Ngan Shing Street, City One Shatin;  City One Market No.6 Lok Shing Street, City One Shatin; and  Shops and non-domestic units on G/F Level of various residential blocks amid City One Shatin, Shatin, the New Territories, Hong Kong.
No. of Parking Lots	: 986
Lot No.	: Shatin Town Lot No. 1
Tenure	: For a term expiring on 30 June 2047
Registered Owner as at 22 March 2005	: Million Nice Development Limited
Description of the Property	: The property, which consists of the following four elements, is located inside City One Shatin:  1. Retail premises on the Ground Floor, 314 car parking spaces on the First Floor, retail and office premises on the Fourth Floor and the Roof of a four-storey commercial / car-parking / recreational arcade (the "Ngan Shing Commercial Centre");

(Continue)

2. Retail and office premises on the Ground Floor and the First Floor and all the Restaurant on portion of the Roof, Rood Garden, Central Garden and Kiosks and 671 parking spaces on the Second Floor and Third Floor of a 4-storey commercial / car-parking / recreational arcade (the "City One Plaza");
3. The Wet Market and the kindergarten on the Ground Floor of residential tower blocks 34-36 of City One Shatin (the "City One Market"); and
4. Various single shops and non-domestic units dispersed throughout the development at the Ground Floor level of 12 individual tower blocks.

The property was completed in various stages with the latest one being completed in 1989. The total gross floor area of the property is approximately 414,469 sq. ft.

City One Shatin is a large-scale residential development in Shatin which comprises a total of 52 residential blocks (some with shops on the Ground Floors) scatter over a total site area of 209,718 sq. m.

Vertical access for patronage amongst the levels of City One Plaza and Ngan Shing Commercial Centre are served by various pairs of escalators and staircases.

Most of the shops of the property are regular in shape. They are mainly occupied as local boutiques, restaurants, supermarkets, other retailing businesses and large-scale Chinese restaurants.

Gross Floor Area	: Approximately 414,469 sq. ft.
Current Occupancy Rate	: 95.3% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 168,000,000
Town Planning Zoning	: The property is zoned for "Residential (Group A)" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 2,680,000,000

VALUATION CERTIFICATE

**Waldorf Garden Property – Various Retail Shops on Level 3 of Waldorf Arcade and 73 car parking spaces and bicycle parking areas on Level 1 and Level 2 amid Waldorf Garden**

Property Address	: Various Retail Shops on Level 3 Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong.
No. of Parking Lots	: 73 car parking spaces and bicycle parking areas on Level 1 and Level 2
Lot No.	: Tuen Mun Town Lot No. 194
Tenure	: For a term expiring on 30 June 2047
Registered Owner as at 22 March 2005	: Waldorf Realty Limited
Description of the Property	: The property, which comprises retail premises on the whole of Level 3 and 73 car parking spaces and bicycle parking areas on Level 1 and Level 2 of the Waldorf Arcade. The property has a total gross floor area of approximately 80,842 sq. ft.  Waldorf Arcade is a common 3-storey commercial podium below 5 blocks of residential building known as Waldorf Garden. There is also one level of car parking basement underneath completed in 1982.  The property is connected with New Town Arcade and Tuen Mun Town Plaza by two footbridges. Vertical access for patronage amongst the levels of the Waldorf Arcade is served by various pairs of escalators and staircases.  Most of the shops of the property are regular in shape. They are mainly occupied as local boutiques, restaurants and other retailing businesses and a large-scale Chinese restaurant.
Gross Floor Area	: Approximately 80,842 sq. ft.
Current Occupancy Rate	: 100% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 26,000,000
Town Planning Zoning	: The property is zoned for "Commercial / Residential" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 430,000,000

VALUATION CERTIFICATE

**Tsing Yi Square Property – Various Retail Shops on the Ground and First Floor in Tsing Yi Square and 27 car parking spaces on the basement amid Tsing Yi Garden**

Property Address	: 48 Shops on the G/F and 24 Shops on the 1/F Level in Tsing Yi Square, Tsing Yi Garden, Nos. 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong
No. of Parking Lots	: 27
Lot No.	: Tsing Yi Town Lot No. 101
Tenure	: For a term expiring on 30 June 2047
Registered Owner as at 22 March 2005	: Fortune Port Group Limited
Description of the Property	: <p>The property comprises 48 shops on the Ground Floor and 24 shops on the First Floor of a two-storey commercial podium (the "Tsing Yi Square") and 27 car parking spaces on the basement of a commercial / residential development. There are a total of 7 blocks of residential buildings built over the podium. The property was completed in or about 1986.</p> <p>The property has a total gross floor area of approximately 78,836 sq. ft.</p> <p>The Ground Floor main entrance of the property is fronting onto Tsing Luk Street. There are two-covered footbridge connecting the First Floor of the property with Tsing Yi Estate and Tsing Yi Complex. Vertical access for patronage between the two levels of the property is served by various escalators and staircases.</p> <p>Most of the shops are regular in shape and some of them are in the shape of trapezium. They are mainly occupied for the businesses serving the local residents from Tsing Yi Garden and neighboring residential developments.</p>
Gross Floor Area	: Approximately 78,836 sq. ft.
Current Occupancy Rate	: 98.8% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 17,800,000
Town Planning Zoning	: The property is zoned for "Residential (Group A)" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 250,000,000

VALUATION CERTIFICATE

Centre de Laguna Property – Centre de Laguna and the Kindergarten amid Laguna City

Property Address	: Centre de Laguna No. 95 Cha Kwo Ling Road; and  A Kindergarten located at Ground Floor of No.99 Cha Kwo Ling Road, Laguna City, Yau Tong Kowloon, Hong Kong
No. of Parking Lots	: 0
Lot No.	: New Kowloon Inland Lot No. 6100
Tenure	: For a term expiring 30 June 2047
Registered Owner as at 22 March 2005	: Fortune Port Group Limited
Description of the Property	: The property comprises retail premises on the Ground and Upper Ground Floor of a commercial development known as "Centre de Laguna" and a kindergarten on the Ground Floor of Blocks 32 to 38 of Laguna City.  Main entrances of the shopping centre and the kindergarten are both fronting onto Cha Kwo Ling Road. Several covered footbridges, which link other residential blocks to the shopping centre and the kindergarten, provide convenient access. The property was completed in 1992. The total gross floor area of the shopping centre and the kindergarten is approximately 29,083 sq. ft. and 13,917 sq. ft. respectively.  Vertical access for patronage between the Ground Floor and Upper Ground Floor of the arcade is served by one internal staircase.  Most of the shops in the property are regular in shape. They are mainly occupied for businesses, such as beauty salon, real estate agents, and restaurants that serve mainly to the local residents in Laguna City.
Gross Floor Area	: Approximately 43,000 sq. ft.
Current Occupancy Rate	: 100% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 10,000,000
Town Planning Zoning	: The property is zoned for "Residential (Group A)2" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 156,000,000

VALUATION CERTIFICATE

**Lido Garden Property – Various Retail Shops on portion of the Ground Floor of Lido Garden**

Property Address	: Various Retail Shops on the Ground Floor, Lido Garden, Nos. 41-63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong
No. of Parking Lots	: 0
Lot No.	: Tsun Wan Marine Lot No. 4
Tenure	: For a term expiring on 30 June 2047
Registered Owner as at 22 March 2005	: Fortune Port Group Limited
Description of the Property	: The property comprises 12 retail units of a portion of the Ground Floor of a single-storey commercial podium (the "Lido Garden Shopping Centre") completed in 1989.  There are a total of five residential buildings erected over the podium. Furthermore a single-storey-covered car park is situated behind the property.  The property has a total gross floor area of approximately 9,836 sq. ft.  All shops of the property are fronting onto Castle Peak Road – Sham Tseng Section and most of the shops are regular in shape. They are mainly occupied for businesses serving the residents of Lido Garden and neighboring residential developments.
Gross Floor Area	: Approximately 9,836 sq. ft.
Current Occupancy Rate	: 100% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 5,700,000
Town Planning Zoning	: The property is zoned for "Residential (Group A)" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 80,000,000

VALUATION CERTIFICATE

**Rhine Garden Property – Various Retail Shops on the Ground Floor of Rhine Garden**

Property Address	: Shops on the Ground Floor of Rhine Garden, No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong.
No. of Parking Lots	: 0
Lot No.	: Lot No. 261 in D.D. 390
Tenure	: For a term expiring on 30 June 2047
Registered Owner as at 22 March 2005	: Fortune Port Group Limited
Description of the Property	: The property comprises various retail units on the Ground Floor (the "Rhine Garden Property") of a 3-storey podium of a commercial / residential development with ancillary car parking and recreational facilities completed in 1992.  The property has a total gross floor area of approximately 14,604 sq. ft.  All shops of the property are fronting onto Castle Peak Road – Sham Tseng Section and they are regular in shape. Shops E, F and Restaurant B have been merged into one unit and has been occupied as a supermarket whilst shop H3 is occupied as a convenience store serving local residents from Rhine Garden and neighboring residential developments.
Gross Floor Area	: Approximately 14,604 sq. ft.
Current Occupancy Rate	: 100% (as at 31 January 2005)
Annual Value	: Approximately HK\$ 2,800,000
Town Planning Zoning	: The property is zoned for "Residential (Group A)1" uses.
Market Value in existing state as at 31 January 2005	: HK\$ 43,000,000

**RETAIL MARKET OVERVIEW AND INDIVIDUAL PROPERTY SUMMARY REPORT  
BY THE INDEPENDENT PROPERTY CONSULTANT**



10 May 2005

ARA Asset Management (Singapore) Limited  
(as manager of Fortune Real Estate Investment Trust)  
9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01 HSBC Building  
Singapore 049320

Savills (Hong Kong) Limited  
23/F Two Exchange Square  
Central, Hong Kong

EA LICENCE: C-002450  
T: (852) 2842 4400  
savills.com

Dear Sirs,

**ECONOMIC AND RETAIL SECTOR REVIEW**

As requested we have prepared an Economic and Retail Sector Review for ARA Asset Management (Singapore) Limited ("ARA") which includes an overview of the retail sector in Hong Kong.

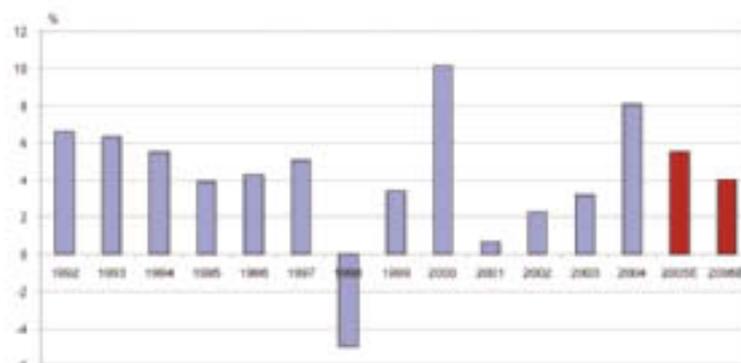
Our Economic and Retail Sector Review dated 10 May 2005 comprises 26 pages and is based on information available as at 10 May 2005. This letter summarises the key findings from this report.

The key findings from our Economic and Retail Sector Review are detailed below:

**General Economy**

The Hong Kong economy has recovered after the episode of Severe Acute Respiratory Syndrome ("SARS") in 2003. Gross domestic product ("GDP") growth for 2004 amounted to 8.1 per cent, the fastest adjustment since 2000. The Hong Kong government has forecast GDP growth for 2005 to be between 4.5 and 5.5 per cent, and a 4.0 per cent trend growth over the period 2006 to 2009.

GDP Growth, 1992 to 2006E



Source: Census and Statistics Department, Financial Services and the Treasury Bureau, Savills Research & Consulting

The quick recovery of the economy post-SARS was supported by a significant increase in visitors from mainland China as a result of a series of measures relaxing entry restrictions on mainland China travellers. The signing of the Closer Economic Partnership Arrangement (“CEPA”) with the People’s Republic of China in June 2003 further integrated the two economies. CEPA aims to strengthen trade and investment cooperation between the two economies and promote joint development.

By late 2003, domestic consumer confidence was beginning to return, and as a result of a booming re-export trade and falling unemployment, GDP growth over 2003 as a whole was recorded at 3.3 per cent.

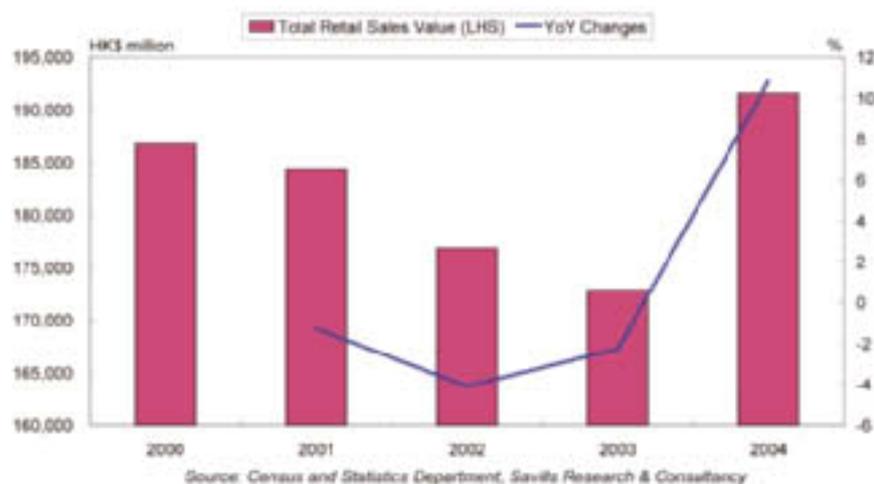
The Hong Kong economy has continued to expand robustly since 2003 despite concerns over rising oil prices, increasing US interest rates and China’s efforts at trying to engineer a soft landing for its economy. Local interest rates have been maintained at a low level and the GDP per capita in 2003 was the highest in Asia (ex-Japan) at US\$23,300.

Although GDP growth from 2005 to 2006 is expected to be slower, reflecting anticipated higher oil prices, rising interest rates and slower growth of the Mainland economy, it is nonetheless expected to remain at a high level of 8.4 per cent and 7.6 per cent for 2005 and 2006 respectively<sup>1</sup>.

### Retail Sales

Recovery in consumer confidence was evident in the growth of retail sales from the middle of 2003. Initially, retail sales growth was lead by the expenditure of Mainland tourists and sales figures reflected the preferences of this demand group, but by 2004, growth had broadened to all retail sub-groups reflecting a return of domestic consumer confidence. For 2004, the aggregate retail sales value rose by 10.8 per cent over the same period last year, showing a marked improvement in the local retail market environment.

#### Retail Sales, 2000 to 2004



Although overseas visitor spending has a significant impact on the retail market, domestic spending remains important as it represented 82.2 per cent of total retail sales in Hong Kong in 2004.

<sup>1</sup> Economist Intelligence Unit estimates

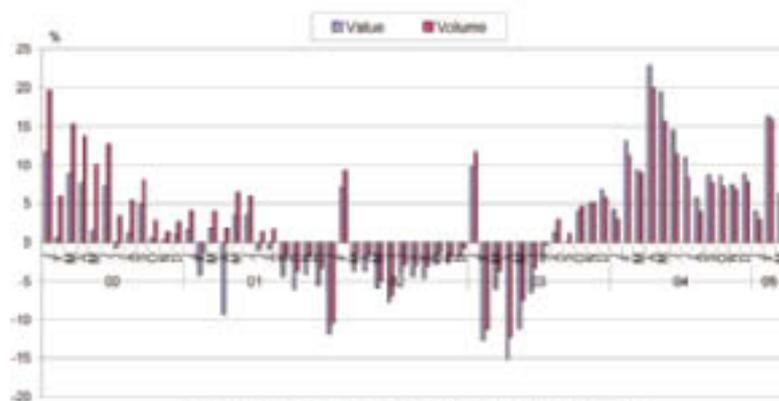
### Domestic vs Visitor Spending, Apr to Jun 2002 vs Apr to Jun 2003

	(1) Total Retail Sales (HK\$ million)	(2) Total no. of Visitors	(3) Visitor per capita spending <sup>2</sup> (HK\$)	(4) Estimated Total Visitor Spending of the month (HK\$ million) (2) X (3)	(5) Domestic Spending of the Month (HK\$ million) (1) – (4)
Apr-02	14,995.0	1,403,041	2,322	3,257.9	11,737.1
May-02	15,506.0	1,332,248		3,093.5	12,412.5
Jun-02	14,540.0	1,174,202		2,726.5	11,813.5
Apr-03	12,723.0	493,666	2,927	1,445.0 (-55.6%)	11,278.0 (-3.9%)
May-03	13,780.0	427,254		1,250.6 (-59.6%)	12,529.4 (+0.9%)
Jun-03	13,600.0	725,236		2,122.8 (-22.1%)	11,477.2 (-2.8%)

Source: Census and Statistics Department, Hong Kong Tourism Board, Savills Research & Consultancy

Even though tourist expenditure plunged by 22.1 to 59.6 per cent over the period April 2003 to June 2003 (compared to the corresponding months in 2002) due to the decline in visitors during SARS, domestic spending remained firm and declined by a more modest 0 to 3.9 per cent. Strong visitor arrival numbers after the containment of SARS helped the Hong Kong retail market to rebound strongly from August 2003. Total retail sales values and volumes have recorded periods of continuous growth that have not been seen since 2000. The rise in retailers' pricing power is also evident in the increased rate of movement of values over volumes since December 2003.

### Year-on-Year Change of Retail Sales Value and Volume, Jan 2000 to Mar 2005

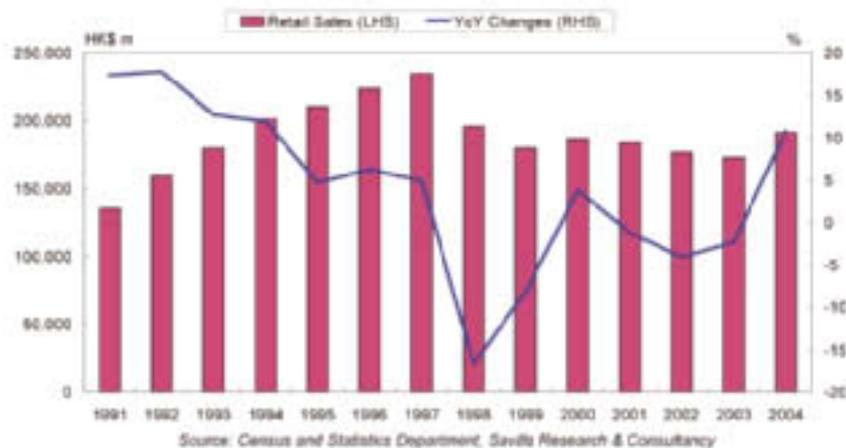


Source: Census and Statistics Department, Savills Research & Consultancy

<sup>2</sup> Whole year figures. Monthly data is not available.

The aggregate retail sales value for 2004 rose by 10.8 per cent compared with 2003. The March 2005 figures saw retail sales value and volume rise by 6.4 and 5.4 per cent respectively. Looking at annual retail sales figures, 2004 recorded the highest figure since 1998.

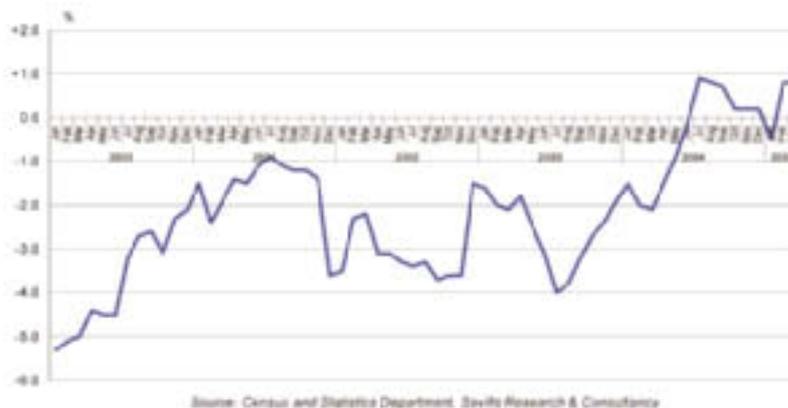
#### Retail Sales Values, 1991 to 2004



#### Inflation Indicators

Deflation has now abated in line with the generally improved economic conditions, sturdy consumer demand and higher import prices. After 68 consecutive months of decline, the Composite Consumer Price Index ("CPI") rose in July 2004 by 0.9 per cent from a year earlier, but the rising trend was temporarily reversed in January and rebounded to positive territory in February and March this year. According to the Hong Kong government, the Composite CPI recorded a moderate increase of 0.8 per cent in March 2005. Consumer prices are expected to continue to post modest increases in the months ahead, along with the continued strength of the domestic sector and higher retained import prices.<sup>3</sup>

#### Composite Consumer Price Index, Jan 2000 to Mar 2005



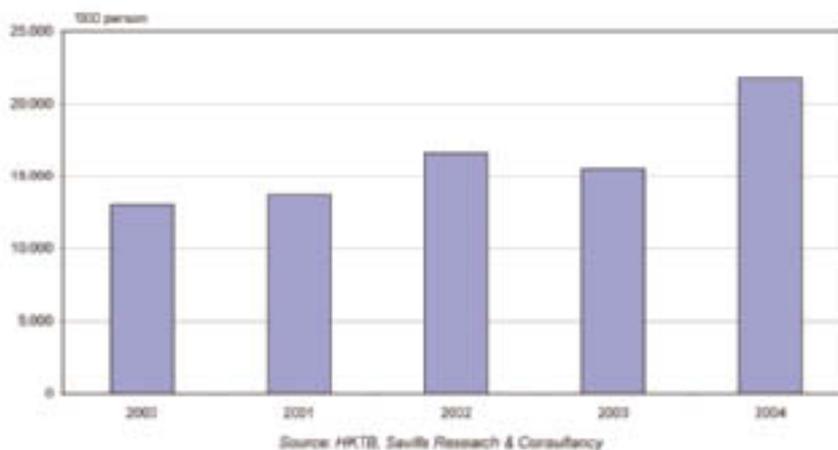
<sup>3</sup> Press Release on Consumer Price Indices for March 2005, April 22, 2005, Census and Statistics Department

### Tourist Arrivals

Tourism has proved vitally important to the Hong Kong economy over recent months. The number of visitor arrivals plunged during SARS but rebounded very quickly from the second half of 2003, driven by mainland Chinese arrivals following the relaxation of travel restrictions. The total number of visitors shows a marked increase from previous years despite the SARS episode. While domestic consumer confidence is making a recovery, tourist spending on shopping now represents a significant 17.8 per cent of total retail sales (during 2004).

Tourist arrivals are estimated to increase in the coming years with a forecast of 21.4 million mainland Chinese tourists by 2010. This is good news for the economy as total expenditure of mainland overnight tourists represented 55.5 per cent of overnight visitor spending for 2004.

### Visitor Arrivals, 2000 to 2004



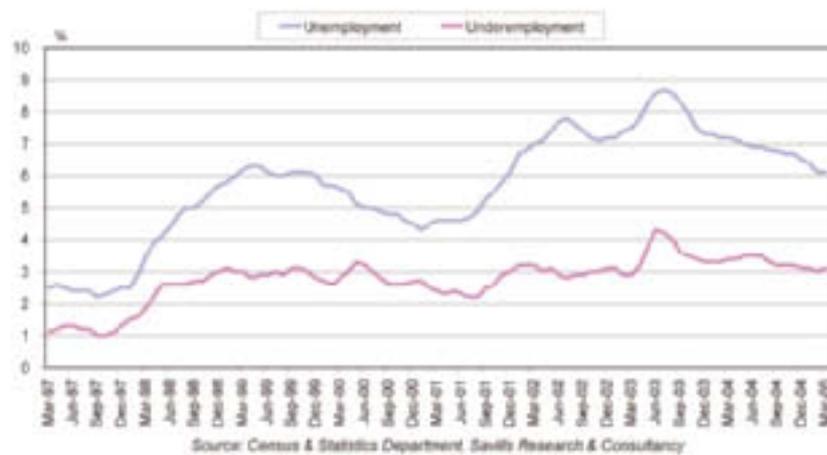
### Forecast Tourist Numbers, 2010 to 2020

	From Mainland China	From Other Places	Total
	Number		
<b>2010</b>	21,436,000	13,404,000	34,839,000
<b>2020</b>	37,516,000	17,394,000	54,910,000
	Average Annual Growth Rate		
<b>2002-2010</b>	15.4%	4.1%	9.7%
<b>2010-2020</b>	5.8%	2.6%	4.7%

Source: HK Planning Department, Savills Research & Consultancy

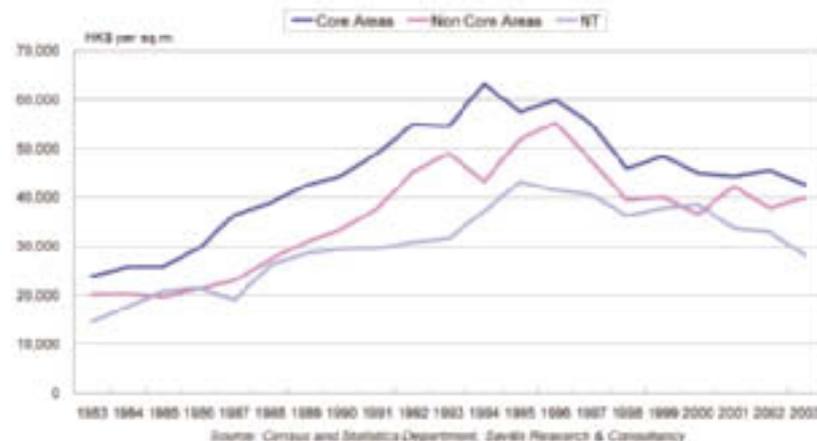
Besides its direct impact on retail sales values, the tourism industry has also improved the employment environment (the latest seasonally adjusted rate for January to March 2005 is reported at 6.1 per cent) and is expected to help strengthen domestic spending.

#### Unemployment and Under-employment Rates, Mar 1997 to Mar 2005



An analysis of total retail sales productivity (retail sales and restaurant receipts on a per square foot basis) by retail area<sup>4</sup> reveals that the New Territories sales productivity series has proven less volatile from 1997 to 2002 compared with either core or suburban locations. In 2003, despite a slump in sales of 18 per cent in suburban locations, stock shrinkage of 22 per cent resulted in improved sales productivity in non-core areas. In the New Territories, although sales rose by 3 per cent, stock also grew by 21 per cent, and sales productivity fell as a result. In core areas, zero sales growth was met with a 6 per cent increase in floor area and a 6 per cent fall in productivity followed.

#### Total Retail Sales Productivity By Area, 1983 to 2003



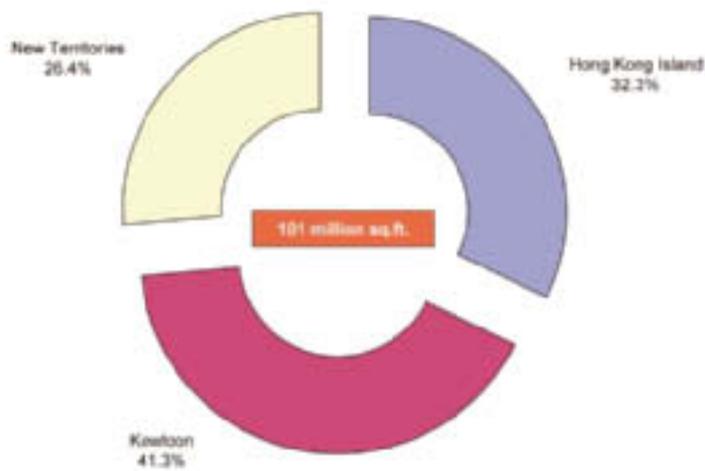
<sup>4</sup> Core Areas – Central & Western, Wanchai, Yau Tsim Mong.  
Suburban Areas – Other areas on Hong Kong Island and Kowloon.  
NT – All areas in the New Territories.

Given low levels of forecast supply at a time of recovering consumption expenditure, sales productivity is expected to show improvement from 2004.

### Retail Sector Overview

Retailing in Hong Kong is focused on four core areas, namely, Central, Causeway Bay, Tsimshatsui and Mongkok. Together, these locations account for 23.0 per cent of private commercial premises, and each is characterised by a mix of shopping centres and street fronting shops and all enjoy strong transport linkages with the rest of the territory.

### Private Commercial Stock Distribution, 2004

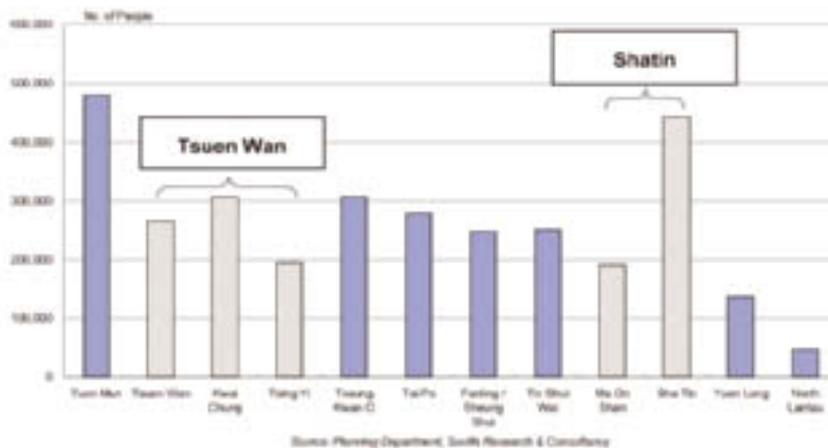


Source: Rating and Valuation Department, Savills Research & Consultancy

Complementing these core areas are suburban shopping districts located on the north shore of Hong Kong Island and in fringe Kowloon which cater mainly to local catchments, both working and resident.

Outside the core and suburban shopping districts are the New Towns scattered throughout the New Territories. A programme started by the Hong Kong government in 1972 and the population in the 9 New Towns stood at 3.1 million in 2003, representing 45.6 per cent of Hong Kong's population.

## New Towns Population, 2003



### Historical Development and Future Trends

Hong Kong is a major retail centre in Asia. Retailing is Hong Kong's second largest industry (after the import and export trade) in terms of number of employees. In 2002, there were over 60,000 retail establishments (including restaurants), employing around 386,000 people. Total retail sales and restaurant receipts reached HK\$191.6 billion (US\$24.6 billion) and HK\$53.0 billion (US\$6.8 billion) respectively in 2004. In real estate terms, total private commercial stock<sup>5</sup> amounted to 101.3 million sq ft<sup>6</sup> in 2004.

The rise in retail sales of durable goods suggests that the domestic consumer market is picking up strongly. Of note, rises in sales of "Furniture and Fixtures" could be related to the buoyant property market from the middle of 2003.

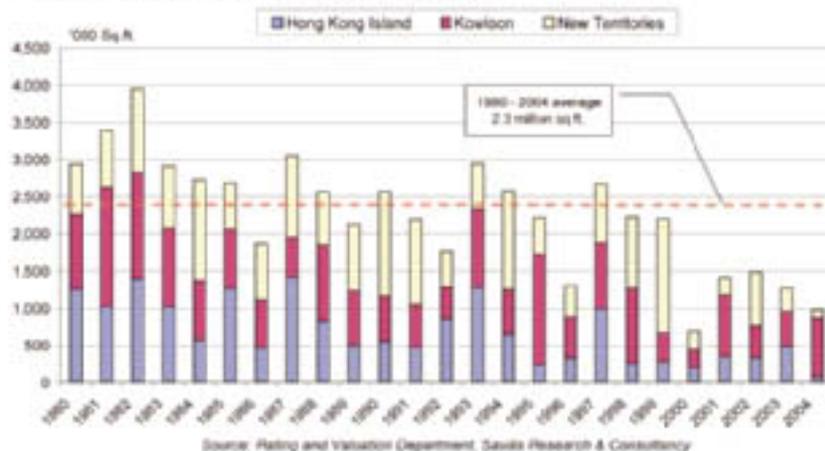
### Total Stock, Distribution and Supply

By the end of 2004, 41.3 per cent of private commercial stock in Hong Kong was located in Kowloon while Hong Kong Island and the New Territories recorded shares of around 32.3 and 26.4 per cent, respectively. Private commercial supply amounted to 980,000 sq.ft. in 2004.

<sup>5</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 parking space is excluded.

<sup>6</sup> All floor area from Rating and Valuation Department and Census and Statistics Department is measured in Internal Floor Area (IFA). IFA is defined herein as the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls.

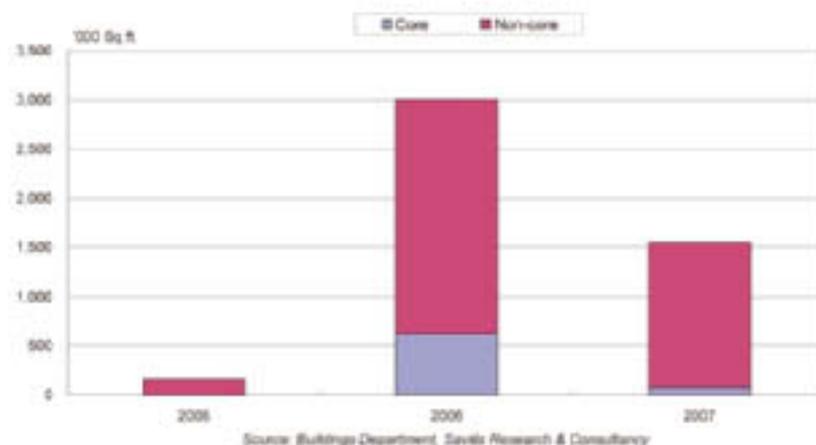
### Private Commercial Supply, 1980 to 2004



### Proposed New Shopping Centres and Future Supply<sup>7</sup>

As Hong Kong's traditional retail districts are aging and increasingly constrained in their ability to expand, a majority of new retail supply currently scheduled for completion is taking place in fringe areas. 81.2 per cent of the estimated 11.6 million sq. ft. of major new developments between 2005 and 2012 are located in non-traditional retail locations. Many new centres forecast for completion to 2007 will be located either on newly reclaimed land or in the New Towns.

### New Supply of Retail Centres, 2005 to 2007



Supply of major shopping centres in Hong Kong is expected to average 1.6 million square feet from 2005 to 2007, with most located in Kowloon (61.1%). A breakdown of upcoming retail supply by district shows West Kowloon Reclamation Area and Kowloon Bay as two areas with a high concentration of future retail facilities.

<sup>7</sup> All floor areas quoted in this section are gross floor areas, unless otherwise stated.

Major Shopping Centre Supply, 2005 to 2007

Development	District	Approx. Area (sq.ft. gross)	Developer
<b>2005</b>			
The Pacifica	West Kln Rec.*	160,000	Cheung Kong
<b>2005 Total</b>		<b>160,000</b>	
<b>2006</b>			
Landmark Extension	Central	50,000	Hongkong Land
World Trade Centre Extension	Causeway Bay	115,000	SHK Properties
Repulse Bay	South	140,000	Emperor Group
Hanoi Road Redevelopment	Tsimshatui	377,000	New World/URA
Garley Building Redevelopment	Jordan	80,000	China Resources
Town Gas Redevelopment Site	To Kwa Wan	130,000	Henderson Land
Union Square, Airport Railway Kowloon Station	West Kln Rec.	900,000	SHK Properties
Lai Chi Kok KMB Depot	Cheung Sha Wan	54,000	SHK Properties
Area 55b Tseung Kwan O	Tseung Kwan O	130,000	New World/MTRC
Tiu Keng Leng Station	Tseung Kwan O	180,000	Cheung Kong/Nan Fung
Tsuen Wan Town Centre	Tsuen Wan	276,000	Sino Land/URA
Yoho Town Phase II	Yuen Long	249,000	SHK Properties
Skyplaza	Island	323,000	HKAA
<b>2006 Total</b>		<b>3,004,000</b>	
<b>2007</b>			
Former Marine Police Headquarters	Tsimshatsui	78,000	Cheung Kong
Enterprise Square Five	Kowloon Bay	1,100,000	Kerry Properties
Ma Wan Island	Island	370,000	SHK Properties
<b>2007 Total</b>		<b>1,548,000</b>	

Source: Buildings Department, Annual Reports, Savills Research & Consultancy

\* West Kowloon Reclamation

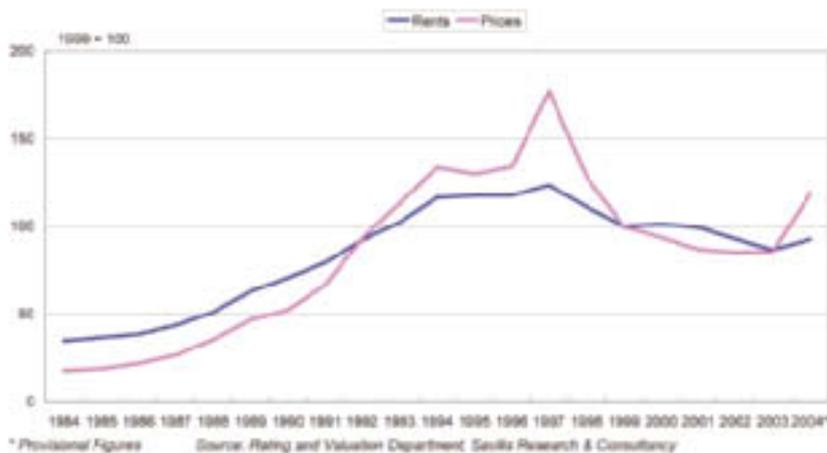
### Infrastructure

An extensive road and rail infrastructure has been developed, especially in previously remote areas of the New Territories, as transport linkages are critical to the success of these centres. The most recent rail line is West Rail, completed by the KCRC in 2003, which extends from Nam Cheong in western Kowloon to Tuen Mun through the western New Territories. A light rail line serving the Northwest New Territories started developing from 1988 with the latest extension for Tin Shui Wai completed in December 2003. Further rail lines are under construction or are being planned.

Hong Kong's existing road network is approximately 1,938 km in length, 1,057 km of which is located in the New Territories. Eleven road tunnels complement this system and extensive additions to the network are being built or are under planning.

### Rents and Prices

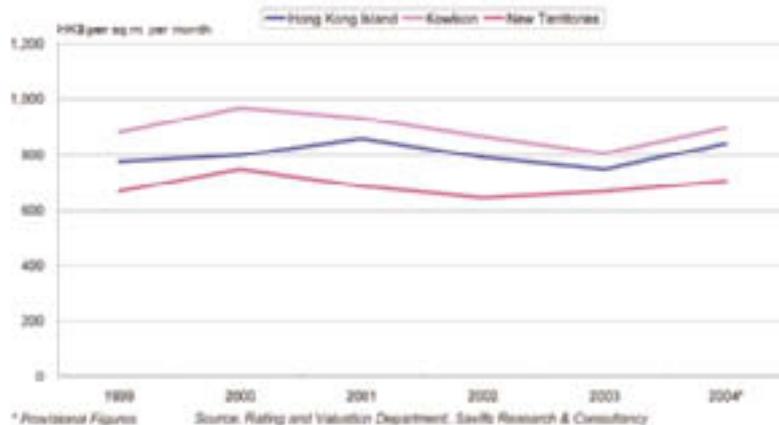
#### Historical Retail Rental and Price Movements, 1982 to 2004



The 1997 financial crisis arrested previous increase in prices and values dropped by 52.1 per cent during the period to 2002.

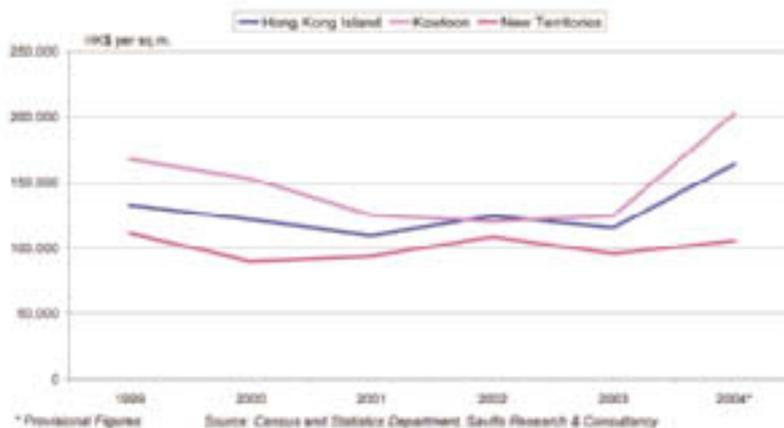
In 2003, rents dropped by 7.0 per cent and much of the decrease was accounted for in the first half of the year as the retail market was severely affected by SARS. Nevertheless, the situation turned around dramatically in the second half. The improvement of the overall economy has continued in 2004 and the retail market is well supported by recovering domestic consumption as well as strong tourist spending. Prices and rents have both rebounded strongly by 38.9 and 7.2 per cent in 2004 respectively as a result, with the strong growth in prices reflecting positive investment sentiment given the favourable retail sector outlook.

### Average Private Retail Rents by Area, 1999 to 2004



Generally, average rents on Hong Kong Island and in Kowloon and the New Territories peaked in 2000 and 2001 during the Information Technology boom and subsequently fell in 2002 and 2003. During this period more resilience was shown by the New Territories, we reason that this was because retailing there is more skewed towards necessities which performed relatively better than, say, comparison goods during the outbreak of SARS. The same factor was partly responsible of the slower growth in New Territories rents in 2004, as necessity demand remains relatively constant during a strong economic rebound.

### Average Private Retail Prices by Area, 1999 to 2004



Average retail prices in Kowloon fell to 2002 and started rising moderately in 2003 despite the impact of SARS. Less volatility was noted on Hong Kong Island and in the New Territories. Strong retail investment sentiment in 2004 has seen prices on Hong Kong Island and in Kowloon rise dramatically by 41.9 and 62.4 per cent, while prices increased more moderately by 10.5 per cent in the New Territories.

### ***Emerging Trends in Shopping Centre Development***

The development of shopping centres in Hong Kong has followed population growth and its distribution, which has in turn relied heavily on provision of transport infrastructure across the Special Administrative Region. Centres today cater to a much broader range of needs and interests and aim to appeal to a much wider range of age groups and lifestyles. Entertainment has become an important feature of many malls and popular formats include ice skating rinks, cinemas and themed restaurants. Ownership of major centres is still dominated by large developers. However, institutional investors of various types have recently penetrated the market including pension and insurance funds, as well as real estate investment trusts.

Larger centres (over 100,000 sq.ft.), located on or near key transport links like rail lines, dominate the retail hierarchy. Larger centres provide developers with management and construction economies, the ability to offer a wider choice of trades and tenants, a more controlled environment and access to a larger catchment. Such centres are often a major component of a comprehensive development scheme comprising residential and commercial uses. By 2003, the number of centres over 100,000 square feet doubled to 110 from 45 in 1990, with a majority of them (48) located in the New Territories.

### ***Limitations***

The Economic and Retail Sector Review contains forward-looking statements which state Savills (Hong Kong) Limited's ("Savills") beliefs, expectations, forecasts or predictions for the future. Savills stresses that all such forecasts and statements other than statements of historical facts outlined in the Economic and Retail Sector Review are based on certain assumptions and are subject to certain risks and uncertainties which could cause actual results to differ materially from such forecasts and accordingly, the Economic and Retail Sector Review should be regarded as an indicative assessment of possibilities rather than absolute certainties. Variations to any assumption may significantly affect outcomes and Savills draws your attention to this and caution you not to place undue reliance on such statements as Savills can give no assurance that the forecasts outlined in the Economic and Retail Sector Review and the Economic and Retail Sector Review will be achieved or that such forecasts and forward looking statements will prove to have been correct.

Savills undertakes no obligation to publicly update or revise any forward looking statements contained in the Economic and Retail Sector Review, whether as a result of new information, future events or otherwise, except as required by law and all forward looking statements contained in the Economic and Retail Sector Review are qualified by reference to this cautionary statement.

The Economic and Retail Sector Review is prepared by Savills for information only. Whilst 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 the accuracy reasonableness or completeness of the information contained in this letter. In producing the Economic and Retail Sector Review,

Savills has relied upon external third party information to generate the forward-looking statements. No independent verification has been undertaken with respect to any of the external third party documents or information referred to herein. The Economic and Retail Sector Review is limited to the matters stated herein and should not be regarded as a comprehensive or formal opinion or audit concerning any such matters nor should any opinion be implied or inferred beyond the matters expressly stated herein.

Yours sincerely,  
For and on behalf of  
SAVILLS (HONG KONG) LIMITED

A handwritten signature in black ink, appearing to be "Simon Smith", written over a horizontal line.

Simon Smith  
Senior Director  
Research & Consultancy

## EXISTING INTERESTED PERSON TRANSACTIONS

Details of the Existing Interested Person Transactions entered into between Fortune REIT and entities within the Cheung Kong Group in the current financial year are set out below:

	<b>Interested Person</b>	<b>Nature of Transaction</b>	<b>Value of Transaction (HK\$ million)</b>
1.	A.S. Watson Group (HK) Limited	Tenancy at Smartland	2.5
2.	Cheung Kong Property Development Limited	Licence at The Metropolis Mall	0.7
		<b>Total</b>	<b>3.2</b>

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 Manager's audit committee.

### **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 is the largest supermarket chain and Watson's is the largest personal care retailer in Hong Kong. Their presence enhances shopper traffic at the Existing Properties thereby improving the attractiveness of the Existing Properties.

RELATED TENANCY AND LICENCE AGREEMENTS

Properties	Related Parties	Unit	GFA	Date of Agreement	Market Monthly Rent/Licence Fee <sup>(1)</sup> (HK\$)	Monthly Rent/Licence Fee (HK\$)	Yearly Rent/Licence Fee (HK\$)	Rent-Free/Licence Fee-Free Period	Current Monthly Rental/Licence Fee per sq ft	Term (Yr)	Option to Renew	Commencement Date	Expiry Date
City One Shatin	A S Watson Group (HK) Ltd. T/A Watson's	No. G24B, 25-28, COP	4,802	19/4/05	*\$278,000	*\$279,761.00	*\$3,357,132.00	N/A	*\$58.26	3	N/A	1/3/05	29/2/08
	A S Watson Group (HK) Ltd. T/A Park'N Shop	Nos. G71-G82, COP	11,804	5/6/03	*\$385,000	*\$388,000.00	*\$4,656,000.00	N/A	*\$32.87	3	N/A	17/7/02	16/7/05
	Hutchison Telephone Co Ltd.	No. 113A, 1/F, COP	466	22/3/05 (Letter of Offer)	*\$35,000	*\$35,000.00	*\$420,000.00	N/A	*\$75.11	2	N/A	12/2/05	11/2/07
	A S Watson Group (HK) Ltd. T/A Park'N Shop	Nos.G 44,48-50,128, NS	13,000	26/11/04	*\$475,000	*\$477,420.00	*\$5,729,040.00	N/A	*\$36.72	3	N/A	1/12/03	30/11/06
	Hutchison Telephone Co Ltd. @	CT2-05	N/A	1/11/03	*\$28,000	*\$28,314.00	*\$339,768.00	N/A	^	2	N/A	1/9/03	31/8/05 ##
Waldorf Garden	A S Watson Group (HK) Ltd. T/A Watson's The Chemist	Shop 2B-6, 6A, 6B, 2/F	979	9/11/04	*\$4,100	*\$4,100.00	*\$49,200.00	N/A	*\$4.19	3	3 years — OMR not more than \$4,715 per month and not less than \$4,100 per month	1/6/04	31/5/07
	A S Watson Group (HK) Ltd. T/A Watson's The Chemist	Shop 6, 2/F	3,688	9/11/04	*\$62,500	*\$62,900.00	*1/6/04 – 31/12/04 = \$314,500.00 *2005 = \$754,800.00 *2006 = \$754,800.00 *1/1/07 – 31/5/07 = \$314,500.00	1/6/04 – 31/7/04	*\$17.06	3	3 years — OMR not more than \$72,335 per month and not less than \$62,900 per month	1/6/04	31/5/07

Properties	Related Parties	Unit	GFA	Date of Agreement	Market Monthly Rent/Licence Fee <sup>(1)</sup> (HK\$)	Monthly Rent/Licence Fee (HK\$)	Yearly Rent/Licence Fee (HK\$)	Rent-Free/Licence Fee-Free Period	Current Monthly Rental/Licence Fee per sq ft	Term (Yr)	Option to Renew	Commencement Date	Expiry Date
Tsing Yi Square	A S Watson Group (HK) Ltd. T/A Park'N Shop	G1	9,425	17/9/04	*\$160,000	*\$162,855.00 or 4% monthly Gross Receipts, whichever is higher.	*\$1,954,260.00 or 4% on monthly Gross Receipts, whichever is higher.	N/A	*\$17.28	3	N/A	6/6/04	5/6/07
	Flying Snow Limited @	G25	1,242	1/4/04	**\$18,600	**\$18,630.00	**\$223,560.00	N/A	**\$15.00	—	N/A	1/4/04	month-to-month #
	Elite Property Advisors Limited @	14D,1/F	4,634	1/3/04	***\$46,000	***\$46,340.00	***1/3/04–31/12/04=\$417,060.00 ***2005=\$556,080.00 ***1/1/06–28/2/06=\$92,680.00	1/3/04 – 31/3/04	***\$10.00	2	N/A	1/3/04	28/02/06
Rhine Garden	A S Watson Group (HK) Ltd. T/A Park'N Shop	Restaurant B	14,022	28/4/05 (Letter of Offer)	*\$232,000	(i) Base Rent: *\$236,400.00 for the period from 23 May 2005 to 22 May 2006 *\$243,000.00 for the period from 23 May 2006 to 22 May 2007 *\$249,500.00 for the period from 23 May 2007 to 22 May 2008, or (ii) Turnover Rent: 5% monthly Gross Receipts, whichever is higher.	* 23/5/05–31/12/05 = \$1,670,051.61 * 2006 = \$2,884,916.13 * 2007 = \$2,963,387.10 * 1/1/08–22/5/08 = \$1,175,064.52 or 5% monthly Gross Receipts, whichever is higher.	23/5/05 – 29/5/05	* \$16.86	3	N/A	23/5/05	22/5/08

**Remarks:**

(1) Confirmed by Chesterton

\* Inclusive of government rent

\*\* Inclusive of management fee, air-conditioning charges, rates and government rent

\*\*\* Inclusive of management fee and air-conditioning charges

^ Licence for erection of antenna, no area is occupied.

@ Licence Agreement

# subject to termination by Licensor by 14 days' notice

## subject to a 3 months' notice for termination by both parties under certain circumstances

## CHESTERTON INDIVIDUAL PROPERTY SUMMARY REPORT AND CHESTERTON SUMMARY CITY ONE SHATIN PROPERTY ASSET ENHANCEMENT REPORT



Our Ref. CNW/caw/04-1168 & 04-1169

10 May 2005

ARA Asset Management (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)  
9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01 HSBC Building  
Singapore 049320

Dear Sirs

### Catchment Area Studies – Executive Summary

Chesterton Petty Ltd was appointed by ARA Asset Management (Singapore) Limited in February 2005 to undertake catchment area studies of 5 commercial facilities located within their respective residential developments, as listed below:

- 1) City One Shatin in Sha Tin
- 2) Waldorf Garden in Tuen Mun
- 3) Tsing Yi Square in Tsing Yi
- 4) Centre de Laguna in Cha Kwo Ling
- 5) Lido Garden & Rhine Garden in Sham Tseng

For each of the commercial facilities, the catchment area report provides the following:

- A general overview of each district in which the facilities are located, including a description of planned developments which may impact on their future performance;
- A supply and demand analysis of retail stock in each district including historical rents and price levels;
- A demographic profile of their trade area population;
- Trade mix analysis and an assessment of the centre's role; and
- Rental growth forecasts covering the next five years.

### City One Shatin

City One Shatin is located in Sha Tin New Town south of the Shing Mun River. It consists of approximately 11,000 private residential units and was built in phases between 1981 and 1989. The commercial facilities, which are the subject of the proposed acquisition, are concentrated in three main areas in the centre of the estate:

- At ground and fourth floor level in the free standing podium of Ngan Shing Commercial Centre (Commercial Block A) divided by three intervening levels of car parking.
- At ground and first floor level in the free standing podium of City One Plaza (Commercial Block B). Above these floors are two levels of car parking and a small roof top restaurant.
- The podium below residential tower blocks 34 – 36, at ground floor level only comprising the wet market and kindergarten.

In addition, there are a small number of single shops and non-domestic units dispersed throughout the estate at ground floor level of 12 individual tower blocks. The commercial facilities in the estate amount to some 38,505 sq m (414,469 sq ft) of gross floor area.

Sha Tin (including Ma On Shan) is a first generation new town with a design population of about 750,000. Existing developments in Sha Tin/Ma On Shan accommodate about 635,000 persons, as at the end of June 2002.

Most of the major shopping centres are clustered near the Sha Tin KCR Station or in Ma On Shan Town Centre. New Town Plaza (Phase 1 and 3) serves as the regional centre for Sha Tin with a total floor size of approximately 1.65 million sq ft gross.

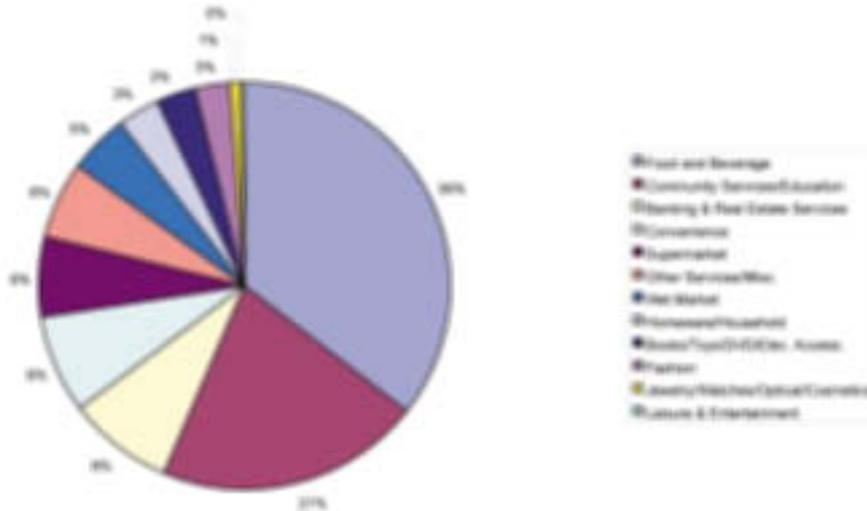
There will be very limited new retail supply in Sha Tin over the next five years. The only new stock is expected to be in 2006/7 from an expansion of Sha Tin Station / Citylink Plaza which will add about 43,000 sq ft net retail space assuming KCRC (the developer) gain approval for their current proposals. New Town Plaza Phase 1 is currently undergoing a HK\$300 million renovation over the next two years, which will refresh its retail offer and further strengthen its role as the major centre in Sha Tin.

There is a bus terminus within City One Shatin connecting the centre with various locations throughout Hong Kong. In addition, there are many bus routes that circulate City One Shatin and its peripheral area.

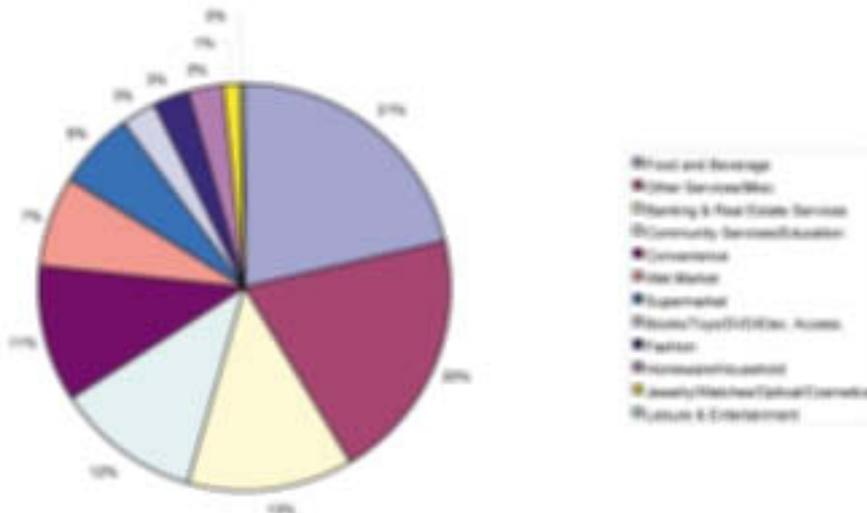
The accessibility of the commercial facilities in City One Shatin has recently improved with the completion of the Ma On Shan Railway in December 2004. The railway interchanges with East Rail and the future Sha Tin to Central Line at Tai Wai Station. The Ma On Shan Line has a total of nine stations along its route including one new station 'City One Station' within 200 metres of the commercial facilities.

There is no other large shopping centre within a 15-20 minute walking time of City One Shatin and as such the commercial facilities are well insulated from immediate competition. Other retail provision in the area mainly consists of small scale local shopping centres.

The trade mix of the commercial facilities, as of 31 December 2004, by leased gross rentable area is as follows:



The predominant trades are food and beverage, community uses and services, which represent a total of 53% of the leased gross rentable area. The current vacancy level by floorspace is 4.6%, largely due to a disused cinema within City One Plaza. The trade mix of the commercial facilities, as of 31 December 2004, by base rental income, is as follows:



Given the agglomeration of retail facilities around the Sha Tin KCR Station and the lack of any sizeable centre in the vicinity of City One Shatin, it is anticipated that the commercial facilities enjoys a very high market share of the local expenditure spent on convenience, services and everyday food and beverage needs. However, its market share for comparison and entertainment shopping is anticipated to be far lower with shoppers more likely to visit New Town Plaza and its satellite centres in order to satisfy these needs.

It is estimated that the catchment population includes around 66,500 persons. The demographic profile of these residents shows a high proportion (43%) in the 15-39 age category, (the group with the highest disposable income) compared to the proportion for Hong Kong overall (40%). The surrounding residents also have a high level of affluence with an estimated median monthly household monthly income of HK\$29,588 recorded at the time of the last census, 58% higher than the median household monthly income level for the whole of Hong Kong (HK\$18,705) for the same year. The catchment population is expected to increase slightly by approximately 2.1% over the next five years. In addition to residents, the catchment population is also estimated to include around 5,700 students and 24,500 workers.

Forecast annual rental change for the commercial facilities in City One Shatin (without asset enhancement) are as follows:

Year	Year on Year Change
2005	+ 6.5%
2006	+ 5.5%
2007	+ 5.5%
2008	+ 5.5%
2009	+ 5.5%

#### Waldorf Garden

Waldorf Garden is located at No. 1 Tuen Lee Street, Tuen Mun. The commercial facilities to be acquired form a single level retail centre on the third floor and lie above two floors of mixed retail and car parking within a podium supporting five residential tower blocks. The centre has one principal corridor orientated on a north-south axis and a direct connection into Tuen Mun Town Plaza, which is in the core area of the New Town. The centre has a total gross floor area of 80,842 sq ft and consists of around 43 shops.

Tuen Mun is a second generation New Town located in the North West New Territories. According to the 2001 Census, about 66 per cent of the town's 465,000 people live in public or subsidized housing. Upon full development, the new town is anticipated to provide housing for about 619,000 persons. Accessibility to the New Town was significantly improved at the end of 2003 with the opening of West Rail, which connects Tuen Mun To North West Kowloon via Tin Shui Wai and Yuen Long.

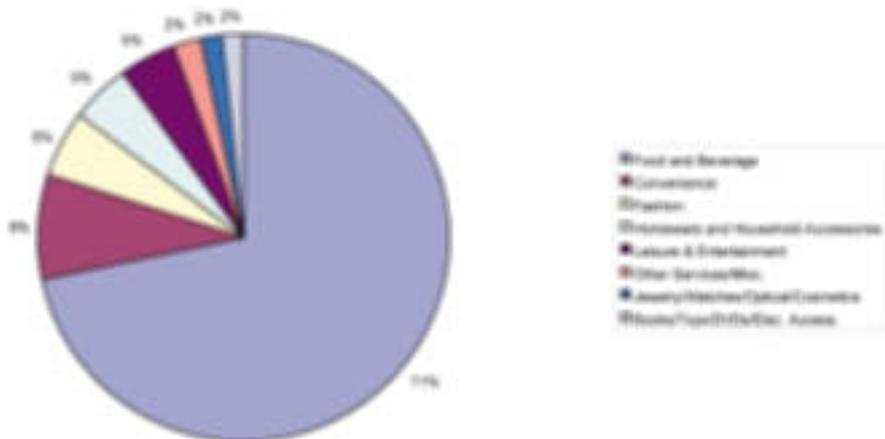
There are a number of large private and public shopping centres in Tuen Mun. Most of the private centres are clustered near the town centre. Tuen Mun Town Plaza (Phases 1 and 2), owned by Sino Land Properties, serves as the regional centre with a total GFA of approximately 793,000 sq ft. The cluster of satellite centres around Tuen Mun Town Plaza provides additional critical mass to the retail facilities in this area. The Housing Authority has 17 retail centres in Tuen Mun principally serving their estate residents, with Leung King

Shopping Centre (187,300 sq ft lettable area) and Butterfly Shopping Centre (157,150 sq ft lettable area) being the largest.

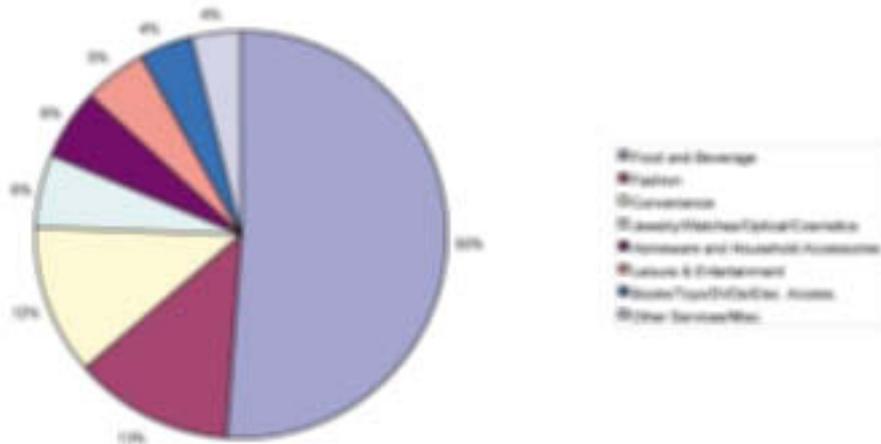
There will be little new supply in the New Town over the next five years. The most significant project will be the KCRC development adjoining the Tuen Mun Station, which is anticipated to consist of around 250,000 sq ft gross floor area with a completion date post 2008.

Tuen Mun is linked to other major urban areas in the New Territories by the Tuen Mun Road and Castle Peak Road. There is also a Light Rail Transit (LRT) system operating, which mainly runs alongside the distributor roads and connects all the major residential, industrial and commercial locations in the New Town. Waldorf Garden is within close proximity (5-8 minutes) to a major public transport interchange accommodating buses, public light buses as well as the Town Centre light railway station.

The existing trade mix, as of 31 December 2004, by leased gross rentable area is shown below:



The trade mix shows a relatively low proportion of convenience and service trades as compared to the high proportion of food and beverage outlets and comparison trades that might be expected for a centre of this size. Given the direct connection with Tuen Mun Town Plaza, it is clear that Waldorf Garden enjoys cross-shopping traffic generated by the regional centre, and serves more as a tertiary retail zone of the Town Plaza rather than as a local shopping centre. There are no current vacancies. The trade mix, as of 31 December 2004 by base rental income is as follows:



It is estimated the primary catchment population has about 15,100 persons. However, it is recognized that as Waldorf Garden is so closely integrated to the regional shopping centre, which itself has an extensive catchment, that there is likely to be a proportion of shoppers originating from much further afield, also visiting the centre, albeit on a less frequent basis than shoppers from the primary catchment.

The primary catchment population shows a distinctly younger profile than for Hong Kong overall. Specifically, there is a higher proportion of population aged between 15-39, the age group with the highest disposable income (46% as opposed to 40% in Hong Kong overall). All of the primary catchment population of Waldorf Garden lives in private housing, a marked contrast to the pattern for Tuen Mun as a whole. Waldorf Garden Shopping Centre serves a relatively well off primary catchment, with an estimated median monthly household income level of HK\$21,759, which is 16% higher than the level for Hong Kong overall. Other than resident population, the primary catchment area has approximately 8,100 workers mostly involved in the wholesale, retail and import & export business, and approximately 800 primary school students.

Forecast annual rental change for the subject commercial facilities in Waldorf Garden are as follows:

Year	Year on Year Change
2005	+ 5.75%
2006	+ 5.75%
2007	+ 5.75%
2008	+ 5.75%
2009	+ 5.75%

### Tsing Yi Square

Tsing Yi Square is the retail provision for Tsing Yi Garden located at 7-19 Tsing Luk Street on Tsing Yi Island. Tsing Yi Garden was completed in 1986 and has 1,520 units accommodating about 5,800 residents. The commercial facilities consist of 78,836 sq ft gross floor area, with 72 shops spread over ground and first floor level. There are footbridges at level 1 of the centre, which provide connections to Tsing Yi Estate, Mei Lok Uk Village, and the government facilities contained within Tsing Yi Complex.

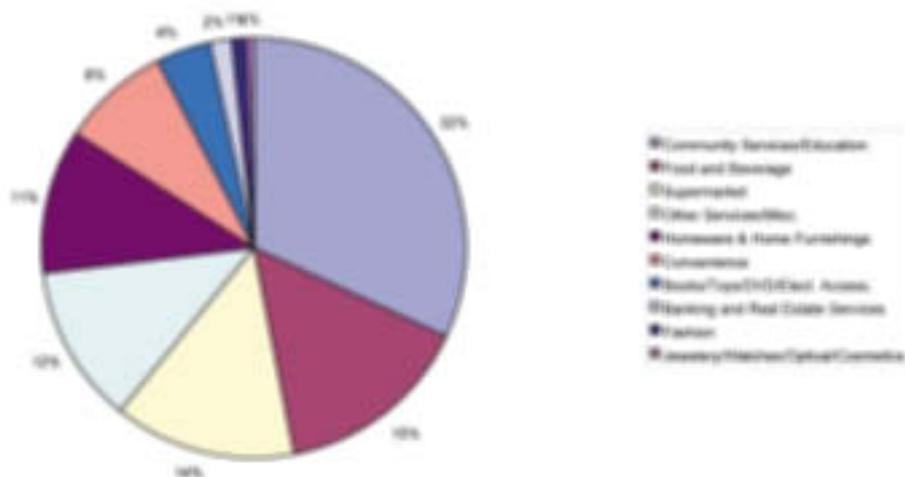
Tsing Yi Island lies to the south-west of Tsuen Wan, separated from Kowloon by the Rambler Channel to the east and north. The New Town has previously been a focus of industrial activities, such as dockyards and chemical plants. However, a number of these uses have since been redeveloped to residential use. According to the 2001 census, the population of Tsing Yi was about 193,400. It is estimated that population of the area could grow to about 205,400 upon full development.

The major shopping centre in Tsing Yi is Maritime Square beside the MTR Station, which was completed in 1998 and consists of approximately 500,000 sq ft gross floor area. Other centres in Tsing Yi are relatively small-scale and primarily designed to serve residents in their immediate vicinity. There is a small government-run wet and dry market in the nearby Tsing Yi Complex.

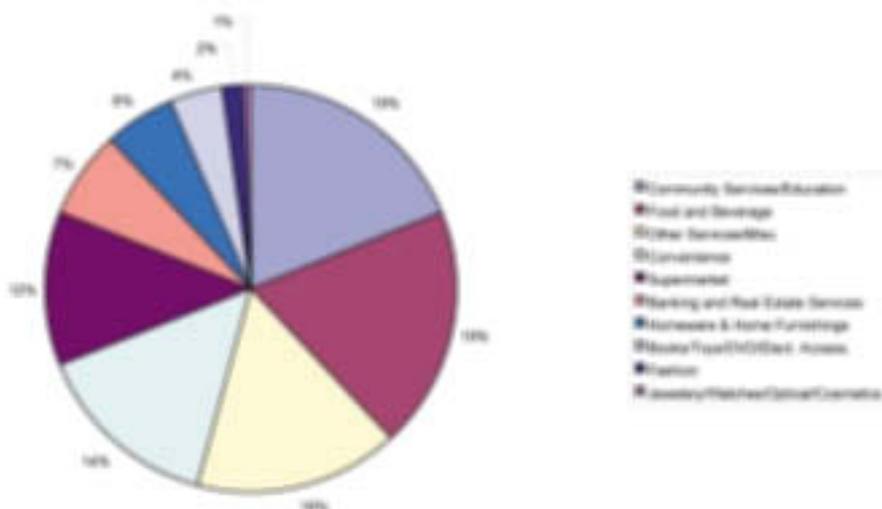
There are no confirmed future retail developments in Tsing Yi over the next five years. However, there will be significant new supply in Tsuen Wan with the anticipated completions of the Tsuen Wan Town Centre project (in 2006), Nina Tower (2006/7) and Tsuen Wan West Station projects (2008+) which together, will form a new retail core in the south west of the New Town.

Tsing Yi Square is about 20 minutes walking distance away from the Tsing Yi MTR station. Pedestrian links are well established with the network of overhead footbridges linking to adjoining developments. The centre is also accessible by bus and public light bus.

The existing trade mix of Tsing Yi Square, as of 31 December 2004 by leased gross rentable area is as follows:



Tsing Yi Square serves as a local centre serving the immediate needs of the surrounding residents. Most of the shops in Tsing Yi Square are independent family run stores. The major brand name operators (and large space occupiers) are the Park N'Shop supermarket and the Hong Kong Jockey Club. The existing vacancy rate by floorspace is 2.8%, represented by one large unit on Level 1. The trade mix, as of 31 December 2004, by base rental income is as follows:



It is estimated that the catchment population includes around 19,000 persons, a level which is expected to be stable over the next five years. There is a vacant site on Tsing Luk Street opposite Tsing Yi Garden, which owned by the Housing Society. However, no development programme for this site has been confirmed.

The catchment population shows a slightly younger profile than the profile for Hong Kong overall with 42% aged between 15-39 as compared to 40%. 73% of the catchment population live in public rental or subsidized housing, which is significantly higher than for Hong Kong overall (49%). However, the median monthly household income of the catchment population, at HK\$18,650, is very similar to Hong Kong's overall level. In addition to residents, it is estimated there are about 3,800 primary and secondary school students in the catchment area.

Forecast annual rental change for Tsing Yi Square is as follows:

Year	Year on Year Change
2005	+ 4.0%
2006	+ 4.0%
2007	+ 4.0%
2008	+ 4.0%
2009	+ 4.0%

#### Centre de Laguna

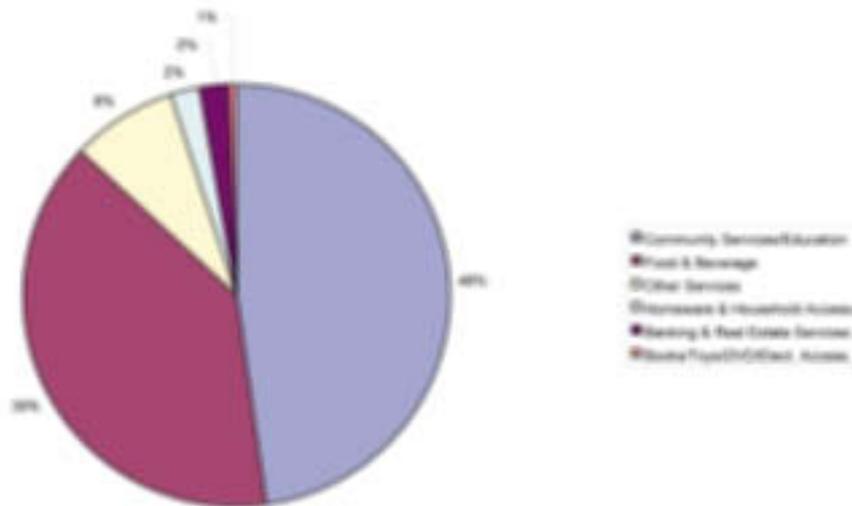
Centre de Laguna is located in Phase III of the Laguna City residential development in Cha Kwo Ling, which is within the Kwun Tong district. Laguna City was completed in four phases between 1990 and 1994 and has a total of about 8,072 residential units. Centre de Laguna was completed in 1992 and has 21 street level retail shops with a total GFA of 43,000 sq ft. There are other commercial facilities in Laguna City in Phase 1, namely Laguna Plaza, which consists of about 168,000 sq ft GFA and is only a few minutes walking distance away to Centre de Laguna.

In addition to Laguna City, Cha Kwo Ling also accommodates a number of government uses as well as Sceneway Garden, which has about 4,112 residential units. To the North West of Cha Kwo Ling is the former industrial area of Kwun Tong, a district that is rapidly emerging as a new commercial node as the Hong Kong economy continues to undergo fundamental restructuring. According to the 2001 census, there were about 562,400 residents in Kwun Tong, with about 68% of the population living in public or subsidized housing. Upon full development, the population of Kwun Tong is expected to increase to 611,600. The additional population in-take is associated with a number of large-scale (private and public) proposed residential projects.

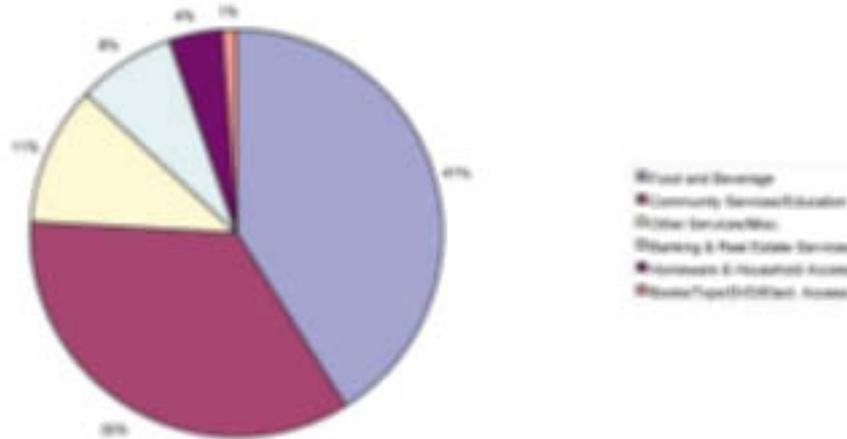
Centre de Laguna and Laguna Plaza are the only retail centres within 500 m distance of Laguna City. However, there are many Housing Authority shopping centres in nearby Lam Tin, Sau Mau Ping and Kwun Tong, which are the retail provisions associated with their respective housing estates. Kai Tin Shopping Centre (including the recent extension), with a total leasable area of about 193,000 sq ft, is the largest public shopping centre in the area and is located next to a public transport interchange within close proximity of the Lam Tin MTR station. Sceneway Plaza is also another sizeable centre, at about 260,800 sq ft GFA and is a strata titled shopping centre built directly above the MTR station in Lam Tin. The major new supply for the area will be the opening of the APM Shopping Centre near the Kwun Tong MTR Station in early 2005, which will consist of approximately 630,000 sq ft GFA.

Kwun Tong is highly accessible from most parts of Hong Kong Island, Kowloon and the New Territories. The district is served by both the Kwun Tong and Tseung Kwan O MTR lines. It takes about 10-15 minutes walking time from Lam Tin MTR station to Laguna City. In addition to the MTR, the centre is also linked by a number of bus and public green light bus routes.

The trade mix of Centre de Laguna, as of 31<sup>st</sup> December 2004 by leased gross rentable area is shown below:



The trade mix reveals that the retail offer is almost wholly community/education uses (including a large kindergarten), food and beverage or services. There are no vacancies at present. The trade mix, as of 31<sup>st</sup> December 2004, by base rental income is as follows:



It is estimated that the catchment population has about 24,300 residents. The population is expected to be stable over the next five-years. The catchment's age profile comprises around 46% in the relatively high-spending age bracket of 15-39 which is higher than proportion for Hong Kong overall (40%). All of the catchment population lives in private housing and enjoys a very high level of affluence. About 40% of the catchment households earn HK\$60,000 or more per month as compared to only about 9% for Hong Kong overall. The median monthly income of HK\$50,000 is 267% higher than the level for Hong Kong. Other than resident population, the catchment area also has about 3,400 workers who are mainly engaged in community and social & personal services.

Forecast annual rental change for Centre de Laguna is as follows:

Year	Year on Year Change
2005	4.5%
2006	4.5%
2007	4.5%
2008	4.5%
2009	4.5%

#### Lido Garden and Rhine Garden

Lido Garden and Rhine Garden are two large residential developments in Sham Tseng completed in 1989 and 1993 respectively. Rhine Garden has 1,074 units accommodating about 3,100 residents whilst Lido Garden consists of 1,392 units, housing approximately 4,200 residents. Rhine Garden Shopping Centre consists of a line of street facing shops and a small inward facing arcade. However, only two of the units are the subject of acquisition, namely the supermarket and a convenience store, which are physically separate from one another. The retail provision in Lido Garden also forms a line of street fronting shops

representing 12 units in total. The 14 shops have a combined gross floor area of 24,440 sq ft.

Sham Tseng was previously a village development to the west of Tsuen Wan New Town. However, significant population growth has taken place in recent years with the completion of some large residential schemes close to the waterfront.

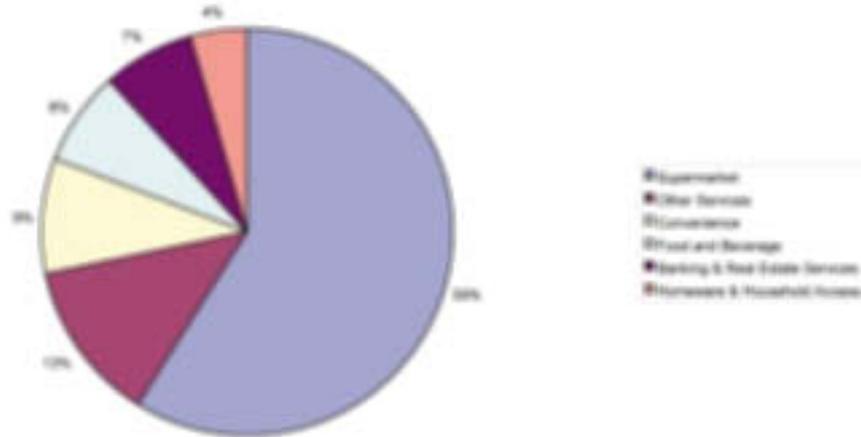
The existing retail facilities in Sham Tseng are all small scale and predominantly at street level. Major shopping centres are located in Tsuen Wan, with the largest being Discovery Park, which was completed in 1997 and has a gross floor area of about 630,000 sq ft. There will be a significant amount of new retail supply in Tsuen Wan, focused in the south west of the New Town, which will create a new retail core for the area. This new supply will be contributed by the anticipated completions of the Tsuen Wan Town Centre project (in 2006), Nina Tower (2006/7) and the Tsuen Wan West Station project (2006+). However, these are all planned as district centres providing a mix of predominantly comparison, food and beverage and entertainment uses, catering to different needs to the facilities provided in Sham Tseng.

Of more relevance will be the opening of Bellagio Mall, opposite Rhine Garden Shopping Centre, which is currently being used for showflats associated with a new phase of residential development (Bellagio Phase 2). Bellagio Mall consists of about 31,000 gross floor area mostly concentrated on level one and is expected to primarily serve the new residents in the Bellagio development. Whilst, the opening of Bellagio Mall will provide some competition to Lião Garden and Rhine Garden, the future facilities in this development will be disadvantaged by the lack of retail presence at street level.

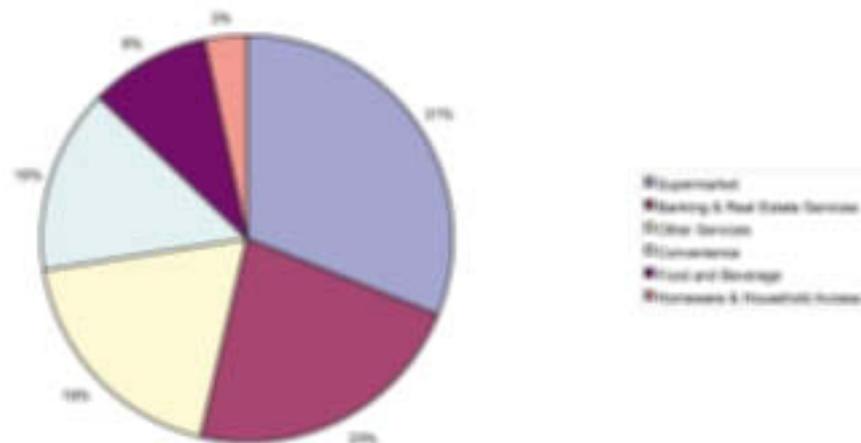
Transport links in the area are heavily dependent on Castle Peak Road as there is only one access off Tuen Mun Road to the area via the Sham Tseng Interchange. The area is also transversed by Tsing Long Highway (Route 3) which is a territorial trunk road linking the North Western New Territories with West Kowloon and Hong Kong Island.

There are many bus and public light bus routes that connect the area to Tsuen Wan, Tuen Mun, Tsing Yi, Sham Shui Po, Kwai Fong, and Yuen Long. Journey time by public transport from Sham Tseng to Tsuen Wan is less than 10 minutes. A road upgrading project is currently underway along Castle Peak Road which will expand the existing single 2-lane carriageway to dual 2-lane carriageway. Upon completion in 2005, the works are expected to reduce the journey time to Tsuen Wan.

The trade mix, as of 31 December 2004, by leased gross rentable area of the 14 units combined is as follows:



The trade mix is clearly orientated towards meeting the day-to-day shopping needs of local residents. There are no current vacancies in the facilities. The trade mix of the 14 units, as of 31 December 2004, by base rental income, is as follows:



With the completion of Bellagio Phase 1 in 2002, the catchment population is estimated to have increased to approximately 16,200. The population is expected to increase by a further 45% over the next five years to 23,500 with most of this intake anticipated in 2006 with the completion and occupation of Angler's Bay (248 units) and Bellagio Phase 2 (1,650 units).

About 84% of the catchment population live in private housing. Sham Tseng residents also have a high level of affluence with a median monthly household income of HK\$35,000, almost double the median household level for Hong Kong overall. Moreover, with the completion of the two new residential developments, household income levels could be expected to rise significantly higher.

Forecast annual rental change for the commercial facilities in Lido Garden and Rhine Garden Property are as follows:

Year	Year on Year Change
2005	4.5%
2006	6.0%
2007	4.5%
2008	4.5%
2009	4.5%

#### Limitations on Report

Chesteron Petty Limited stresses that the forecasts outlined in our Catchment Area Studies 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 we draw your attention to this.

Chesteron Petty Limited therefore can give no assurance that the forecasts outlined in the Catchment Area Studies will be achieved.

Yours faithfully  
For and on behalf of  
Chesteron Petty Limited



Christian Wright  
MA MSc MRTPi  
Director of Retail Consultancy

Our Ref: CNW/caw/04-1168 & 04-1169

10 May 2005

ARA Asset Management (Singapore) Limited  
(as manager of Fortune Real Estate Investment Trust)  
9 Temasek Boulevard  
#09-01 Suntec Tower 2  
Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
(as trustee of Fortune Real Estate Investment Trust)  
21 Collyer Quay  
#14-01 HSBC Building  
Singapore 049320

Dear Sirs

**Asset Enhancement Study of Commercial Facilities in City One Shatin – Executive Summary**

Chesterton Petty Ltd was appointed by ARA Asset Management (Singapore) Limited in February 2005 to undertake an asset enhancement study of commercial facilities in City One Shatin.

The asset enhancement report examined the following opportunities:

- a) Strategic district opportunities - identifying opportunities arising from the current and anticipated retail market in Shatin as well as from developments taking place in the catchment of the commercial facilities, including population growth and recent transport infrastructure;
- b) Design and layout opportunities - identifying opportunities that improve the internal space planning of the commercial facilities; and
- c) Trade and tenant mix opportunities - identifying opportunities that improve the configuration of the trades and tenants on offer as well as exploring new types of trades that would be viable in this location.

The asset enhancement recommendations have been verified to ensure proposals, in the event of implementation, would be able to comply with statutory requirements relating to means of escape and other conditions within the Buildings Ordinance. They have also been checked against the terms of the existing lease and deed of mutual covenant and found to be feasible.

### The Subject Premises

City One Shatin is located in Sha Tin New Town south of the Shing Mun River. It consists of 52 high rise towers (housing approximately 11,000 private residential units) and was built in phases between 1981 and 1989. The commercial facilities, which are the subject of the proposed acquisition, are concentrated in three main areas in the centre of the estate:

- At ground and fourth floor level in the free standing podium of Ngan Shing Commercial Centre (Commercial Block A) divided by three intervening levels of car parking.
- At ground and first floor level in the free standing podium of City One Plaza (Commercial Block B). Above these floors are two levels of car parking and a small roof top restaurant.
- The podium below residential tower blocks 34 – 36, at ground floor level only comprising the wet market and kindergarten.

In addition, there are a small number of single shops dispersed throughout the estate at ground floor level below individual tower blocks. The commercial facilities in the estate amount to some 38,505 sq m (414,489 sq ft) of gross floor area.

### Strategic District Opportunities

There is no other large shopping centre within a 20 minute walking time of City One Shatin and as such the commercial facilities are well insulated from immediate competition. Other retail provision in the area mainly consists of small scale local shopping centres.

There will be very limited new retail supply in Sha Tin over the next five years. The only new stock is expected to be in 2006/7 from an expansion of Sha Tin Station / Citylink Plaza which will add about 43,000 sq ft net retail space assuming the KCRC (the developer) gain approval for their current proposals. It should be noted however, that New Town Plaza (Phase 1) is currently undergoing a renovation over the next two years, which will refresh its retail offer and further strengthen its role as the major regional centre for the area.

The accessibility of the commercial facilities in City One Shatin has recently improved with the completion of the Ma On Shan railway at the end of 2004. This new rail link, which connects Ma On Shan to Tai Wai includes a new station ('City One Station') within 200 metres of the commercial facilities.

It is estimated that the catchment population includes around 66,500 persons. The demographic profile of these residents shows a high proportion (43%) in the 15-39 age category, (the group with the highest disposable income) compared to the proportion for Hong Kong overall (40%). The surrounding residents also have a high level of affluence with an estimated median monthly household income of HK\$29,588 recorded at the time of the last census, 58% higher than the median level for the whole of Hong Kong (HK\$18,705) for the same year. The catchment population is expected to increase slightly by approximately 2.1% over the next five years. In addition to residents, the catchment population is also estimated to include around 5,700 students and 24,500 workers.

### Design and Layout Opportunities

Currently, the three main concentrations of commercial facilities are poorly integrated. Circulation within each individual centre is also often confused and convoluted. There are several opportunities to improve links and movement, including re-orientation of the wet market with a new entrance onto Po Sing Street and the re-instatement of a continuous corridor on the first level of City One Plaza. An additional option would be to provide an air-conditioned lobby on the first floor of Ngan Shing Commercial Centre, with a new bank of escalators leading to the ground floor. However, this proposal involves a small increase in the GFA and a loss of 7 car parking spaces, which would need approval by both Transport Department and the Lands Department, with consent possibly subject to a premium payment. Given the uncertainty of this proposal, the impact of these works are excluded from the value enhancement assessment.

There is an opportunity to increase the amount of lettable area on the ground floor of the free standing commercial centres by adding floorspace under the existing 1<sup>st</sup> floor slab (City One Plaza) or taking up excessive arcade space (Ngan Shing Commercial Centre). This will have a positive impact on the overall efficiency level as well as helping to enhance the retail exposure.

Retail visibility of the commercial facilities can be also be improved by installing building identification signage at the entrance points and introducing clear way finding signage within the buildings.

Another improvement is to introduce a policy on the location of all retail unit access points in the shopping centres. Exterior accessed units should be grouped together to improve their critical mass. A similar strategy should be adopted for internal accessed units.

The overall retail ambience of the commercial facilities can be improved by upgrading finishes, increasing lighting levels and establishing a well managed tenant fit-out guide.

### Trade and Tenant Mix Opportunities

The predominant trades in the commercial facilities are food and beverage, community uses and services, which represent a total of 82% of the gross rented area. This would suggest that the current offer is more akin to a very large local shopping centre rather than a district centre. Opportunities should be taken to expand the number of comparison trades in appropriate locations to increase the dwell time of shoppers and help ensure the centre serves as a weekend destination as well as a weekday facility.

Other trade and trade mix opportunities include:

- Identifying an alternative use for the large vacant space comprising the disused cinema.
- Reconfiguring some of the existing trades into more appropriate locations such as re-positioning of the kindergarten in the podium below residential tower blocks 34-36.

- Introducing a different theme to City One Plaza and Ngan Shing Commercial Centre in order to better distinguish their role. As the larger of the two centres and with the majority of the existing brand names, it is recommended to position City One Plaza as the higher grade facility offering a higher quality product range compared to Ngan Shing Commercial Centre, which should concentrate on servicing local and everyday needs.

#### Value Increase Assessment

The additional retail space measures some 1,475 sq m, representing an increase of 7.9% to the net floor area of the retail floorspace (this definition excludes the area occupied by the community uses located on the 4/F of Ngan Shing Commercial Centre and G/F podium below residential tower blocks 34-36). As the area is already under cover, the space is defined as internal floor area rather than gross floor area.

The cost of the proposed enhancement works is estimated to be approximately \$62.3 million, including \$7.5 million for E&M works.

As a result of the design, layout and trade mix opportunities, the potential increase in annual revenue is estimated to be 16.3%. This represents a net gain in capital value of \$271.9 million after deducting enhancement costs, and a return on capital of 34%.

Yours faithfully  
For and on behalf of  
Chesterton Petty Limited



Christian Wright  
MA MSc MRTP1  
Director of Retail Consultancy

## IFA LETTER

The Independent Directors  
 ARA Asset Management (Singapore) Limited  
 (as manager of Fortune Real Estate Investment Trust)  
 9 Temasek Boulevard  
 #09-01 Suntec Tower 2  
 Singapore 038989

HSBC Institutional Trust Services (Singapore) Limited  
 (as trustee of Fortune Real Estate Investment Trust)  
 21 Collyer Quay  
 #14-01 HSBC Building  
 Singapore 049320

13 May 2005

Dear Sirs

### **INTERESTED PERSON TRANSACTION TO BE ENTERED INTO BY FORTUNE REAL ESTATE INVESTMENT TRUST IN CONNECTION WITH ITS PROPOSED ACQUISITIONS**

*For the purpose of this letter, terms not otherwise defined herein shall have the same meaning given as in the circular dated 13 May 2005 to the unitholders of Fortune REIT (the "Circular")*

#### **1. INTRODUCTION**

This letter has been prepared for inclusion in the Circular to be issued by ARA Asset Management (Singapore) Limited ("ARA" or the "Manager") to the unitholders of Fortune Real Estate Investment Trust ("Fortune REIT") in connection with the proposed acquisitions of the following properties (collectively known as the "Acquisitions" and each an "Acquisition") from Fortune Port Group Limited ("Fortune Port"):

- (i) the City One Shatin Property (through the acquisition of the entire issued share capital of Mightypattern Limited, the company which indirectly owns the City One Shatin Property);
- (ii) the Waldorf Garden Property (through the acquisition of the entire issued share capital of Waldorf Realty Limited, the company which directly owns the Waldorf Garden Property);
- (iii) the Tsing Yi Square Property;
- (iv) the Centre de Laguna Property;
- (v) the Lido Garden Property; and
- (vi) the Rhine Garden Property,

collectively referred to as the "Properties" and each a "Property".

Fortune Port, which is incorporated in the British Virgin Islands, is a wholly-owned subsidiary of ARA Asset Management Limited, a company incorporated in Bermuda. As the Manager is also a wholly-owned subsidiary of ARA Asset Management Limited, the Manager and Fortune Port are related corporations. Therefore, each of the acquisition of the Properties will constitute an "interested person transaction" under Chapter 9 of the Listing Manual as well as an "interested party transaction" under Paragraph 6 of the Property Funds Guidelines in Appendix 2 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore (the "**Property Funds Guidelines**"). (See paragraphs 3.15.2 and 3.15.3 of the Circular for further details).

As the Acquisition of the City One Shatin Property by itself exceeds 5.0% of the NAV of Fortune REIT, this Acquisition and other Acquisitions from the same related party (Fortune Port) are subject to Unitholders' approval under Chapter 9 of the Listing Manual and Paragraph 6 of the Property Funds Guidelines.

In accordance with the requirements of Chapter 9 of the Listing Manual, KPMG Corporate Finance Pte Ltd ("KPMG Corporate Finance") has been appointed to advise the Independent Directors of the Manager (the "Independent Directors") and HSBC Institutional Trust Services (Singapore) Limited (the "Trustee") as to whether each of the Acquisitions is on normal commercial terms and whether they are prejudicial to the interests of the Trust and the Unitholders.

In accordance with Paragraph 6 of the Property Funds Guidelines, KPMG Corporate Finance has been appointed to advise the Independent Directors and the Trustee as to whether each of the Acquisitions is on normal commercial terms and whether they are prejudicial to the interests of the Unitholders, based on an assessment of the impact of the transaction on the Trust on an overall basis; and draw the Unitholders' attention to any possible disadvantages of the transaction.

## **2. TERMS OF REFERENCE**

In accordance with the Listing Manual, the responsibility of KPMG Corporate Finance is to provide an opinion on whether the "interested person transaction" is on normal commercial terms and whether they are prejudicial to the interests of Fortune REIT and the minority Unitholders.

In accordance with the Property Funds Guidelines, the responsibility of KPMG Corporate Finance is to provide an opinion on whether the "interested party transaction" is on normal commercial terms and whether it is prejudicial to the Unitholders, based on an assessment of the impact of such transaction on Fortune REIT on an overall basis, and draw the Unitholders' attention to any possible disadvantages of such transaction.

Our opinion is delivered solely for the use and benefit of the Independent Directors and the Trustee for their deliberations on the Acquisitions, before arriving at a decision on the merits or demerits of the Acquisitions, and in making any recommendations. We were not involved in any aspect of the negotiations pertaining to the Acquisitions, nor were we involved in the deliberations leading up to the decision of and recommendations by the Independent Directors to proceed with the Acquisitions. The decision of and recommendations made by the Independent Directors shall remain their sole responsibility.

Our opinion should not be relied on as a recommendation to any Unitholders as to how such Unitholders should vote in relation to the Acquisitions or any matter related thereto. The Unitholders may have different investment objectives and considerations and should seek professional advice.

We have not conducted a comprehensive review of the business, operations or financial condition of Fortune REIT. Our terms of reference also do not require us to evaluate or comment on the merits and/or risk, whether strategic, commercial, financial or otherwise, of the Acquisitions or on the future prospects of Fortune REIT and as such, we do not express an opinion thereon. Such evaluation or comments remain the sole responsibility of the Independent Directors.

It is also not within our terms of reference to compare the relative merits of the Acquisitions to any alternative transactions previously considered by or may have been available to Fortune REIT or any alternative transactions that may be available in the future. Such evaluations or comments remain the sole responsibility of the Independent Directors, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion.

In addition, we have not made any independent evaluation or appraisal of the existing or proposed assets or liabilities (including without limitation, real property) of Fortune REIT.

In formulating our opinion, we have held discussions with the Directors and management of the Manager. We have considered the information contained in the Circular, publicly available information collated by us as well as information, both written and verbal, provided by the Manager and its professional advisers, which may include solicitors, auditors, tax advisers and valuers. 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 all such information, provided or otherwise made available to us or relied on by us. We have nevertheless made reasonable enquiries and used our judgement in assessing such information and have found no reason to doubt the reliability of such information.

We have relied upon the representation of the Directors (including those who may have delegated detailed supervision of the Circular and the Acquisitions) that they have taken all reasonable care to ensure that all information and facts stated in the Circular are fair and accurate and all information and facts in relation to the Acquisitions have been disclosed to us, and that no material information and facts have been omitted, the omission of which would render any statement in the Circular, information and facts disclosed to us or our opinion in this letter to be inaccurate, incomplete or misleading in any material respect. The Directors (including those who may have delegated detailed supervision of the Circular and the Acquisitions) have jointly and severally accepted responsibility in the "Directors' Responsibility Statement" of the Circular. Accordingly, no representation or warranty, express or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information and facts.

Our opinion is based upon market, economic, industry, monetary and other conditions (where applicable) in effect on, and the information made available to us as at the date of this letter. Such conditions and information can change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in the light of any subsequent changes or developments after the date of this letter even if it may affect our opinion contained herein. Unitholders should take note of any announcements relevant to their consideration of the Acquisitions which may be released by Fortune REIT after the date of this letter.

In rendering our opinion, we did not have regard to the general or specific investment objectives, financial situation, risk profiles, tax position or particular needs and constraints of any Unitholder. As different Unitholders would have different investment objectives and profiles, we would advise the Independent Directors to recommend that any Unitholder who may require specific advice in relation to his investment portfolio(s) should consult his or their stockbroker, bank manager, accountant or other professional advisers.

The Manager and the Trustee have been separately advised by their own professional advisers in the preparation of the Circular (other than this letter). We have no role or involvement and have not and will not provide any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Circular (other than this letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (other than this letter).

While a copy of this letter may be reproduced in the Circular, neither the Manager nor the Trustee may reproduce, disseminate or quote this letter or any part thereof for any purpose, other than for the purpose stated herein, without the prior written consent of KPMG Corporate Finance.

Our opinion in relation to the Acquisitions should be considered in the context of the entirety of this letter and the Circular.

### 3. DETAILS OF THE ACQUISITIONS

#### 3.1 Overview of the Acquisitions

On 24 March 2005, the directors of the Manager (the “**Directors**”) announced that the Trustee, (in its capacity as trustee of Fortune REIT), had entered into separate conditional sale and purchase agreements (together, the “Sale and Purchase Agreements” and each a “Sale and Purchase Agreement”) with Fortune Port.

Each of the Sale and Purchase Agreements is independent of, and not conditional upon, any of the other Sale and Purchase Agreements.

The detailed descriptions of the Properties, including their respective major tenants is set out in Appendix 1 of the Circular. We recommend that the Independent Directors advise the Unitholders to read this section of the Circular carefully.

We reproduce below a brief overview of each of the properties:

- **The City One Shatin Property** comprising commercial portions and car parking spaces at City One Shatin, Shatin, New Territories, Hong Kong;
- **The Waldorf Garden Property** comprising shops and car parking spaces located at No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong;
- **The Tsing Yi Square Property** comprising 48 shops on the ground floor, 29 shops on the 1st floor and 27 car parking spaces on the basement of a commercial/residential development known as “Tsing Yi Garden” located at No. 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong;
- **The Centre de Laguna Property** comprising the commercial area on the Ground Floor of the commercial development known as “Centre de Laguna” and the kindergarten of Blocks 32 to 38 of Laguna City located at the junction of Cha Kwo Ling Road and Sin Fat Road, Kowloon, Hong Kong;
- **The Lido Garden Property** comprising 12 shop units of a portion on the Ground Floor at the northern fringe of the side boundary of the commercial/residential development called “Lido Garden” located at No. 41–63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong; and
- **The Rhine Garden Property** comprising various retail portions on the Ground Floor of the 3-storey podium of a commercial/residential development with ancillary car parking and recreational facilities known as “Rhine Garden” located at No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong.

#### 3.2 Structure of the Acquisitions

The Trustee (as trustee of Fortune REIT) has entered into separate conditional Sale and Purchase Agreements with Fortune Port for the acquisition of each of the Properties as described below:

(i) The City One Shatin Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the City One Shatin Property through the acquisition of the entire issued share capital of Mightypattern Limited, the company which indirectly owns the City One Shatin Property. The purchase consideration for Mightypattern Limited is the sum of HK\$2,559.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Mightypattern Limited. Any deferred tax liability or assets of Mightypattern Limited and its subsidiaries will not be taken into account in such calculation. The City One Shatin Property was valued by two independent property valuers, Chesterton Petty Ltd (“Chesterton”) and Vigers Appraisal & Consulting Limited (“Vigers Appraisal”), both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, was HK\$2,680.0 million.

(ii) The Waldorf Garden Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Waldorf Garden Property through the acquisition of the entire issued share capital of Waldorf Realty Limited, the company which directly owns the Waldorf Garden Property. The purchase consideration for Waldorf Realty Limited is the sum of HK\$400.0 million which is subject to adjustment (on bases agreed between the Trustee and Fortune Port) for the consolidated net current assets/current liabilities of Waldorf Realty Limited. Any deferred tax liability or assets of Waldorf Realty Limited and its subsidiaries will not be taken into account in such calculation. The Waldorf Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, was HK\$430.0 million.

(iii) The Tsing Yi Square Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Tsing Yi Square Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Tsing Yi Square Property. The purchase consideration for the Tsing Yi Square Property is HK\$230.0 million. The Tsing Yi Square Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005, was HK\$250.0 million.

(iv) The Centre de Laguna Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Centre de Laguna Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Centre de Laguna Property. The purchase consideration for the Centre de Laguna Property is HK\$135.0 million. The Centre de Laguna Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, was HK\$145.0 million.

(v) The Lido Garden Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Lido Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Lido Garden Property. The purchase consideration for the Lido Garden Property is HK\$75.0 million. The Lido Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, each of which valuations as at 31 January 2005 was HK\$80.0 million.

(vi) The Rhine Garden Property

Under the relevant Sale and Purchase Agreement, the Trustee (as trustee of Fortune REIT) will purchase from Fortune Port the Rhine Garden Property through a special purpose vehicle of Fortune REIT to be incorporated in the British Virgin Islands whose primary purpose will be to acquire and own the Rhine Garden Property. The purchase consideration for the Rhine Garden Property is HK\$40.0 million. The Rhine Garden Property was valued by two independent property valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the lower of the two valuations, as at 31 January 2005, was HK\$43.0 million.

The Aggregate Purchase Consideration for the Properties is HK\$3,439.0 million, before adjustment for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited. Each of the Properties was appraised by two independent valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million.

The acquisition of each Property by Fortune REIT from Fortune Port is independent of and not conditional upon the acquisition of any other Property by Fortune REIT from Fortune Port. Each of the Sale and Purchase Agreements is independent of, and not conditional upon, any of the other Sale and Purchase Agreements.

### 3.3 Costs of the Acquisitions

(i) Aggregate Purchase Consideration

The Aggregate Purchase Consideration of the Properties is HK\$3,439.0 million, subject to adjustments for the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited respectively.

Each of the Properties was appraised by two independent valuers, Chesterton and Vigers Appraisal, both appointed by the Trustee, and the aggregate of the lower of the two valuations of each of the Properties as at 31 January 2005 is HK\$3,628.0 million.

(ii) Other Additional Costs

The following additional costs are also expected to be incurred by Fortune REIT in connection with the Acquisitions:

- stamp duty of HK\$23.9 million;
- Acquisition Fee of approximately HK\$34.4 million (being 1.0% of the Aggregate Purchase Consideration) payable to the Manager pursuant to the Trust Deed; and
- other estimated fees and expenses (including professional fees, the front-end fee payable under the Facilities and expenses) of approximately HK\$71.2 million incurred or to be incurred by Fortune REIT in connection with the Acquisitions.

### 3.4 Payment of the Purchase Consideration

The Aggregate Purchase Consideration is to be paid in cash upon Completion.

In relation to the acquisition of the City One Shatin Property and the Waldorf Garden Property, the relevant purchase consideration is to be applied as payment for the transfer of the entire issued share capital of Mightypattern Limited or (as the case may be) the entire issued share capital of Waldorf Realty Limited (collectively, the “**Target Company Shares**”).

Part of the Aggregate Purchase Consideration for the Properties will be financed from the net proceeds of an issue of such number of New Units under the Equity Fund Raising as to raise up to an aggregate of HK\$1,986.1 million in gross proceeds.

The actual amount of gross proceeds to be raised from the Equity Fund Raising will depend on which of the Acquisitions are approved by the Unitholders and which Acquisition(s) Fortune REIT proceeds to complete.

The balance of the Aggregate Purchase Consideration is intended to be financed from the proceeds of the Facilities referred to below which Fortune REIT is expected to obtain for the purposes of the Acquisitions, the refinancing of Fortune REIT’s existing debt and general working capital.

On Completion, the Existing Property Companies together with the Property Companies will have in place secured facilities aggregating HK\$2,650.0 million (the “**Facilities**”) comprising a term loan facility and a revolving credit facility, each for a term of five (5) years. Please see paragraph 3.9 of the Circular for details of the Facilities.

### 3.5 Overview of the Equity Fund Raising

It is intended that the Equity Fund Raising will comprise:

- (a) a preferential offering of approximately 47.7<sup>1</sup> million New Units at the Issue Price to Singapore Registered Unitholders on a non-renounceable basis of one new Unit for every 10

of the Existing Units held as at the Preferential Offering Books Closure Date (fractions of a Unit to be disregarded) and subject to the rounding mechanism (the “**Preferential Offering**”); and

- (b) an offering of New Units at the Issue Price by way of:
- an offering to retail investors in Singapore through the ATMs of DBS Bank (including ATMs of POSB) (the “**ATM Offering**”) on a “first-come, first-serve basis”; and
  - a private placement to institutional and other investors (including Focus Eagle) (the “**Private Placement**”).

As an illustration, assuming that the Issue Price is determined to be HK\$6.10, a total of 325.6 million New Units will be issued, with the Preferential Offering approximately 47.7<sup>1</sup> million New Units, and the ATM Offering and the Private Placement together making up the remaining New Units.

For further details on the Equity Fund Raising, please refer to paragraph 4 of the Circular.

### 3.6 Bank Financing

On Completion, the Existing Property Companies and the Property Companies are expected to have in place the Facilities aggregating HK\$2,650.0 million comprising a HK\$2,385.0 million term loan facility and a HK\$265.0 million revolving credit facility, each for a term of five years. The Facilities will be initially drawn to approximately HK\$2,498.0 million with the term loan fully drawn on Completion. Each loan made under the Facilities will bear interest at the Hong Kong Interbank Offered Rate (“**HIBOR**”) plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year. The Manager expects to fix the interest rate for the Facilities using interest rate swaps of varying tenors which is likely to result in at least 50.0% of the outstanding amount under the Facilities being on a fixed interest rate basis. The Facilities are expected to be secured by, *inter alia*, a mortgage over the Existing Properties and the Properties.

In the case of Waldorf Garden Property, the mortgage over such Property will be executed if and when the letter of consent for such mortgage is obtained from the Registrar General (Land Officer) under the terms of the applicable Government Lease.

Please refer to paragraphs 2, 3 and 4 of the Circular for further details about the Acquisitions, the Facilities and the Equity Fund Raising.)

## 4. CERTAIN TERMS AND CONDITIONS OF THE SALE AND PURCHASE AGREEMENTS

The Sale and Purchase Agreements in relation to the acquisition of the City One Shatin Property and the Waldorf Garden Property provide, *inter alia*, that prior to Completion, the relevant Target Company and its subsidiaries must:

- (a) dispose of their assets, other than the relevant Property, plant and equipment and the consolidated current assets which are to be reflected in the Pro Forma Completion Balance Sheet; and
- (b) discharge all their liabilities, other than:
- inter-company loans within the group;
  - the consolidated current liabilities which are to be reflected in the Pro Forma Completion Balance Sheet; and
  - the provision for deferred tax liability which is to be reflected in the completion management accounts of the relevant Target Company and its subsidiaries.

---

<sup>1</sup> This figure does not take into account the additional Units which will, where necessary, be allocated to Singapore Registered Unitholders to enable them to obtain, after acceptance of their provisional allocations of New Units under the Preferential Offering, aggregate unitholdings in integral multiples of 1,000 Units (as described in paragraph 4.1 of the Circular).

The completion of each of the Acquisitions will be subject to the satisfaction of a number of conditions including:

- (a) the Equity Fund Raising and the relevant Acquisition being approved by Unitholders;
- (b) (in the case of the City One Shatin Property and the Waldorf Garden Property) Fortune REIT or (in the case of the Centre de Laguna Property, the Tsing Yi Square Property, the Lido Garden Property and the Rhine Garden Property) the company nominated by Fortune REIT to directly hold the relevant Property, obtaining sufficient debt facility to finance the relevant Acquisition and such facility being in place and available for drawdown at Completion;
- (c) the placement agreement to be entered into between the Joint Bookrunners and Underwriters and the Manager in relation to the underwriting of certain portions of the Equity Fund Raising being unconditional in all respects;
- (d) the approval in-principle of the SGX-ST for the listing and quotation of the New Units on the Main Board of the SGX-ST having been obtained; and
- (e) (in the case of the acquisition of the City One Shatin Property and the Waldorf Garden Property) the obtaining of necessary governmental and regulatory approvals.

In the case of the Waldorf Garden Property the necessary governmental approvals to be satisfied prior to Completion will include the obtaining of letters from the Registrar General (Land Officer) of Hong Kong granting waivers to non-compliance with Special Condition 24 of the Government Lease relating to an Assignment, a mortgage and the creation of certain tenancies and licences, which require the prior consent of the Registrar General (Land Officer) of Hong Kong and more particularly described in paragraphs 3.12.2(i) and (ii) of the Circular. Under the relevant Sale and Purchase Agreement for the Waldorf Garden Property, Fortune Port has undertaken to use its best endeavours to procure fulfilment of the aforesaid completion conditions, and to the extent that any conditions (including fines, fees and/or penalties) are imposed in relation to the waivers granted, such conditions shall be fulfilled at the cost of Fortune Port. The Manager and the Trustee may waive the condition referred to in paragraph (e) above in relation to any governmental or regulatory approvals if they receive a satisfactory legal opinion from a reputable law firm in Hong Kong.

Each of the Sale and Purchase Agreements provides that the long-stop date for the satisfaction of the above conditions is six months after the date of the relevant Sale and Purchase Agreement.

The Tsing Yi Square Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property are sold on an “as is, where is” basis and subject to the existing tenancies and licences. The Sale and Purchase Agreement in relation to the City One Shatin Property contains certain representations and warranties made by Fortune Port in respect of the City One Shatin Property, Mightypattern Limited and its subsidiaries. Similarly, the Sale and Purchase Agreement in relation to the Waldorf Garden Property contains certain representations and warranties made by Fortune Port in respect of the Waldorf Garden Property, Waldorf Realty Limited and its subsidiaries.

Each of the Sale and Purchase Agreements in relation to the City One Shatin Property and the Waldorf Garden Property also sets out limitations on the liability of Fortune Port in respect of any breach of warranties, including provisions for aggregate maximum liability, minimum threshold for claims and a limitation period of 21 months for all claims.

Upon Completion, Fortune Port will novate to the Trustee (as trustee of Fortune REIT) certain of its rights, benefits and related obligations under the sale and purchase agreements entered into by Fortune Port with the Original Vendors in connection with its acquisition of the Target Company Shares.

The acquisition of each Property by Fortune REIT from Fortune Port is independent of and not conditional upon the acquisition of any other Property by Fortune REIT from Fortune Port. Unless the relevant approvals of Unitholders have been obtained, Fortune REIT is not obliged to buy any or all of the Properties.

## 5. EVALUATION OF THE ACQUISITIONS

In arriving at our opinion in relation to the Acquisitions, we have taken into account the following key factors:

- the rationale for the Acquisitions;
- the reasonableness of the Purchase Consideration of each of the Acquisitions;
- the financial effects of the Acquisitions; and
- other considerations including:
  - fees payable to the Manager;
  - Related Tenancy and Licence Agreements; and
  - novations of certain sale and purchase agreements and deeds of tax covenant.

### 5.1 Rationale for the Acquisitions

The full text of the Manager's rationale for the Acquisitions can be found in paragraph 2.2 of the Circular. As it is important for Unitholders to understand the rationale of the Acquisitions, the Independent Directors should advise the Unitholders to read paragraph 2.2 of the Circular carefully. Salient information from the paragraph 2.2 relating to the Manager's rationale has been extracted from the Circular and set out below:

#### (i) Yield Accretion

The Manager believes that the Acquisitions will improve the DPU enjoyed by Unitholders. Based on the Manager's forecast for the financial year ending 31 December 2005 and the Aggregate Purchase Consideration of HK\$3,439.0 million (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions), the Properties are expected to generate a consolidated property yield<sup>2</sup> of approximately 5.70% for the financial year ending 31 December 2005, which is higher than the current consolidated implied property yield<sup>3</sup> of approximately 5.59% generated by the Existing Properties (assuming a Unit price of HK\$6.10) for the same period.

#### (ii) Investment Objectives and Strategies of Fortune REIT

As set out in the prospectus dated 28 July 2003 (the "**Prospectus**"), Fortune REIT is a Singapore-based unit trust with the investment objective of investing in real estate and real estate related assets. It is formed primarily to own and invest in properties located in Hong Kong through direct ownership of real properties or ownership of companies whose primary purpose is to hold or own real properties.

The Manager's key objectives for Fortune REIT are to deliver stable distributions to Unitholders and to achieve long-term growth in the NAV per Unit. The Manager intends to accomplish these objectives by ensuring that Fortune REIT continues to own a range of retail properties without over-exposing Fortune REIT's property portfolio to any particular sub-sector, building or tenant.

In view of the high occupancy rate and the diversified tenant mix of the Properties (see paragraphs 2.2.4(ii) and (iii) of the Circular), the Manager believes that the Acquisitions are in line with its objectives.

---

<sup>2</sup> Property yield is typically calculated as the Net Property Income of a property over its valuation, except that when the property is first acquired, property yield will be based on the purchase consideration of the property. For the Properties, the property yield for the period indicated in the above is based on the Aggregate Purchase Consideration of HK\$3,439.0 million.

<sup>3</sup> The "implied property yield" is calculated as the Net Property Income of the Existing Properties over the value imputed to the portfolio by investors in Fortune REIT based on a Unit price of HK\$6.10.

(iii) Retail Market Trend in Hong Kong

The Manager has commissioned the Independent Property Consultant to prepare a report on the Hong Kong retail property market.

According to the Retail Market Overview, the current state of Hong Kong's overall economy has been boosted by various factors such as the growing number of mainland China tourist arrivals, closer economic integration with China, reducing unemployment rate and recovering domestic consumer confidence.

The improving economy has helped the Hong Kong retail market to rebound strongly since August 2003. Total retail sales values and volumes have recorded positive increases on a year on year basis for 17 consecutive months since August 2003.

Considering the robust Hong Kong economy and retail market, the Manager believes that there is potential for future upward adjustment of rental rates for the Properties if the improvement continues.

(See Appendix 7 of the Circular for the Retail Market Overview by the Independent Property Consultant.)

(iv) Competitive Strengths

The Manager believes that the Properties benefit from the following strengths:

- Strategic location and large population catchment area

The majority of the Properties are strategically located in the relatively new towns in the New Territories, which is expected to experience further population growth. All the Properties also enjoy high levels of accessibility to public transportation, with the major roads in the vicinity of each Property linking to most parts of Hong Kong.

- High occupancy level

As at 31 December 2004, the combined average occupancy rate of the Properties was 96.7%. The City One Shatin Property had an occupancy rate of 95.4%. The Tsing Yi Square Property had an occupancy rate of 97.2%, and each of the Waldorf Garden Property, the Centre de Laguna Property, the Lido Garden Property and the Rhine Garden Property had an occupancy rate of 100.0%. The high levels of occupancy are a reflection of the strong demand for retail space in the areas in which these Properties are located. If the general retail conditions in Hong Kong improves, the Manager believes that there is potential for future upward adjustment of rental rates for the Properties.

(For further details, please see the Retail Market Overview by the Independent Property Consultant and Chesterton Individual Property Summary Report and Chesterton Summary City One Shatin Property Asset Enhancement Report in Appendix 7 and Appendix 10, respectively, of the Circular.)

- Tenant profile and diversification

The tenant mix of the Properties is diversified and many of the tenants of the Properties are leading retailers. Some of the Properties' existing tenants have been serving their respective local residents' shopping needs for more than 10 years.

(v) Income Diversification

After the Acquisitions, the Manager expects that Fortune REIT will have an enlarged portfolio of properties in which no one property is expected to represent more than 35.0% of the total Net Property Income for the period from 1 January 2005 to 31 December 2005. The further diversification of the sources of Fortune REIT's Net Property Income means that Unitholders are expected to enjoy even more stable income streams as there will be less dependence on any particular property.

(vi) Geographical Diversification

The Acquisitions will allow Fortune REIT to diversify its property portfolio geographically in Hong Kong, making Fortune REIT less dependent on any micro-property market in Hong Kong. This is illustrated by the map in Appendix 1 of the Circular which shows the location of the Properties and the Existing Properties in Hong Kong.

(vii) Increased Liquidity

Assuming Unitholders' approvals are obtained for all the Acquisitions, Fortune REIT proceeds with completion of all of the Acquisitions and 325.6 million New Units are issued at an illustrative price of HK\$6.10 per New Unit under the Equity Fund Raising, the New Units will constitute 68.5% of the Units as at 31 December 2004. The issue of the New Units may increase the number of Units in the free float and may therefore facilitate improvement in the trading liquidity of the Units on the SGX-ST.

(viii) Potential for Inclusion in Major Equity Indices

The addition of the Properties to Fortune REIT's property portfolio will increase the asset base and market capitalisation of Fortune REIT. The number of Units in the free float may increase and this may facilitate improvement in the trading liquidity of the Units on the SGX-ST. The Manager believes that such factors increase the likelihood of Fortune REIT being included in certain major equity indices.

(ix) Opportunities to Enhance the City One Shatin Property

Chesterton was appointed by the Manager to undertake an asset enhancement study of commercial facilities in the City One Shatin Property. Chesterton has identified the following opportunities which the Manager believes will enhance the value of the City One Shatin Property:

1. strategic district opportunities;
2. design and layout opportunities; and
3. trade and tenant mix opportunities.

(For a detailed summary review of asset enhancement opportunities for the City One Shatin Property by Chesterton, please see Appendix 10 of the Circular)

As at the date of this Circular, no decision has been made by the Manager to proceed with any asset enhancement work at the City One Shatin Property. Before the Manager proceeds with any such asset enhancement work in the future, the Manager will consider the circumstances existing at the relevant time including the cost of such asset enhancement work and the potential increase to Fortune REIT's Net Property Income, and obtain all necessary approvals from the relevant authorities.

(x) Economies of Scale

The Acquisitions will substantially enlarge the property portfolio of Fortune REIT and this could generate possible cost synergies and create economies of scale leading to lower operating costs in relation to Properties.

(xi) Capital Management

The Manager proposes to fund the Acquisitions through a combination of equity and debt financing, as Fortune REIT intends to take advantage of the lower cost of debt funding to enhance returns to Unitholders. Following the completion of the Equity Fund Raising and the Acquisitions, Fortune REIT's Gearing is expected to be 31.5% as at 31 December 2005, which is below the maximum gearing level of 35.0% permitted by the MAS. By maintaining additional Gearing capacity, the Manager believes that Fortune REIT may have some financial flexibility to acquire additional properties as and when the opportunities arise and to fund such acquisitions either fully or partially using borrowings. Further, additional Gearing capacity also allows flexibility to the Manager to undertake asset enhancements and fund any on-going capital expenditure requirements.

Based on the acquisition growth strategy set out in paragraph 2.2.2 of the Circular, we are of the view that each of the Properties meets the investment criteria of the Manager, which includes the location of the properties, stability of cash flow and yield enhancement.

(See paragraph 2 of the Circular for further details about the Rationale of the Acquisitions)

## 5.2 Reasonableness of the Purchase Consideration of each of the Acquisitions

The purchase consideration for each of the Acquisitions is set out in paragraph 3.2 above.

In evaluating the reasonableness of the Purchase Consideration of each of the Acquisitions, we have taken into account the following pertinent factors which we consider to have a significant bearing on our assessment:

(i) Valuation of the Properties Undertaken by the Independent Valuers

The Trustee had appointed 2 independent valuers, Chesterton and Vigers Appraisal (collectively known as the "**Independent Valuers**") to carry out independent open market valuations of the Properties as at 31 January 2005.

The Summary Valuation Reports of the Independent Valuers are attached in Appendix 5 and 6 of the Circular. The key points to note from the two valuations are as follows:

- the standard of value applied by the Independent Valuers were "Open market value". The definition of "Open market value" appears to be broadly consistent between the Independent Valuers;
- the valuation methodologies adopted by the Independent Valuers are similar; and
- of the six properties valued by the Independent Valuers, there is no difference in the values of two properties. The values of the remaining four properties vary from 3.0% to about 16.3%, with the higher percentage being for the smallest property (in value terms).

We note that the Acquisition price of each of the Properties is below the lower of the two valuations.

For further details on the valuation reports by the Independent Valuers, please refer to Appendices 5 and 6 of the Circular.

(ii) Property Yield

We note that the property yields<sup>4</sup> generated from the Acquisitions are as follows:

Property	Property Yield Generated based on Purchase Consideration <sup>5</sup>
City One Shatin Property	5.6% <sup>6</sup>
Waldorf Garden Property	5.7% <sup>6</sup>
Tsing Yi Square Property	5.6%
Centre De Laguna Property	6.6%
Lido Garden Property	6.5%
Rhine Garden Property	6.0%
<b>Average</b>	<b>5.7%</b>

We also note that the property yield of each of the Properties which ranges from 5.6%–6.6%, is higher than the current consolidated implied property yield of approximately 5.59% generated by the Existing Properties (assuming a Unit price of HK\$6.10) as shown in paragraph 2.2.1 of the Circular.

This is in line or compares favourably with the average property yield of around 4%–6% generated by recent market transactions in Hong Kong involving broadly comparable retail properties<sup>7</sup>.

(iii) Occupancy Rates

The following table sets out information on the Gross Rentable Area and the occupancy rate of each Properties as at 31 December 2004:

Property	Gross Rentable Area as at 31 Dec 2004 (sq ft)	Occupancy Rate as at 31 Dec 2004	Occupied Area as at 31 Dec 2004 (sq ft)
City One Shatin Property	414,469	95.4%	395,315
Waldorf Garden Property	80,842	100.0%	80,842
Tsing Yi Square Property	78,836	97.2%	76,591
Centre de Laguna Property	43,000	100.0%	43,000
Lido Garden Property	9,836	100.0%	9,836
Rhine Garden Property	14,604	100.0%	14,604
<b>Total</b>	<b>641,587</b>	<b>NA</b>	<b>620,188</b>
Weighted Average Occupancy Rate	96.7%		

<sup>4</sup> Property yield is typically calculated as the Net Property Income of a property over its valuation, except that when the property is first acquired, property yield will be based on the purchase consideration of the property. For the Properties, the property yield for the period indicated in the above is based on the Aggregate Purchase Consideration of HK\$3,439.0 million.

<sup>5</sup> Purchase Consideration is based on the lower of the 2 valuations obtained from Chesterton Petty Ltd and Vigers Appraisal & Consulting Limited, and further discounted.

<sup>6</sup> Property yields for City One Shatin and Waldorf Garden Property are estimations as the Purchase Consideration will be adjusted to take into account the consolidated net current assets/current liabilities of Mightypattern Limited and Waldorf Realty Limited, respectively.

<sup>7</sup> Source: DTZ Research Property Times Winter 2004 (Hong Kong).

As at 31 December 2004, the weighted average occupancy rate of the Properties was 96.7%.

Based on the figures above, the weighted average occupancy rate of the Properties of 96.7% compares well with the average occupancy rate of 89.2%<sup>8</sup> for retail space in Hong Kong in 2004. We also note that the occupancy rate of each of the Properties is above the average occupancy rate of 89.2%.

### 5.3 Financial Effects of the Acquisitions

The pro forma financial effects of the Acquisition are set out in paragraph 3.14 of the Circular and reproduced below:

(i) Pro Forma DPU

The pro forma financial effects of the Acquisitions (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions) on the DPU for the financial year ended 31 December 2004, as if Fortune REIT had purchased the Properties on 1 January 2004, and held and operated the Properties through to 31 December 2004, are as follows:

	Existing Properties	After the Acquisitions <sup>(2)</sup>	Existing Properties	After the Acquisitions <sup>(2)(3)</sup>
	Actual <sup>(1)</sup>		Actual <sup>(1)(3)</sup>	
<b>Net profit of Property Companies/Target Company</b>	(HK\$'000) 213,714	(HK\$'000) 405,629	(S\$'000) 46,263	(S\$'000) 87,808
<b>Income available for distribution</b>	(HK\$'000) 158,756	(HK\$'000) 271,959	(S\$'000) 34,366	(S\$'000) 58,872
<b>Issued Units<sup>(4)</sup></b>	('000) 475,671	('000) 808,679	('000) 475,671	('000) 808,679
<b>DPU</b>	(HK cents) 33.40	(HK cents) 33.63	(Singapore cents) 7.22	(Singapore cents) 7.28

**Notes:**

- (1) For the financial year ended 31 December 2004.
- (2) Including the pro forma results for the financial year ended 31 December 2004.
- (3) Based on the exchange rate of HK\$4.6195 = S\$1.00, being the average of the exchange rates on Bloomberg at the end of each month for the entire year ended 31 December 2004.
- (4) Based on the assumptions that (i) Fortune REIT's Gearing is at 31.5%, (ii) 325.6 million New Units are issued, (iii) an estimated 1.8 million Units are issued to the Manager in payment of its Base Fee and (iv) 5.6 million Units are issued to the Manager in payment of its Acquisition Fee.

Based on the figures above, we note that the pro forma DPU after the Acquisitions increases from 7.22 cents to 7.28 cents due to the larger increase of 71.3% in the Income Available for Distribution, as compared to the 70.0% increase in the number of Issued Units.

<sup>8</sup> Based on the report from the Hong Kong Rating and Valuation Department — Hong Kong Property Review 2005 Preliminary Findings, the vacancy rate for Private Commercial Property as at 31 December 2004 was 10.8% which implies an occupancy rate of 89.2%.

(ii) Pro Forma NAV per Unit

The pro forma financial effects<sup>9</sup> of the Acquisitions (assuming that Unitholders' approvals are obtained for all of the Acquisitions and that Fortune REIT proceeds with completion of all of the Acquisitions) on the NAV per Unit as at 31 December 2004, as if Fortune REIT had purchased the Properties on 1 January 2004, and held and operated the Properties through to 31 December 2004, are as follows:

	Existing Properties <sup>(1)</sup>	After the Acquisitions <sup>(1)</sup>	Existing Properties <sup>(1)(2)</sup>	After the Acquisitions <sup>(1)(2)</sup>
NAV <sup>(1)(3)(5)</sup>	(HK\$'000) 3,190,132	(HK\$'000) 5,281,231	(S\$'000) 690,579	(S\$'000) 1,143,247
Issued Units <sup>(4)</sup>	('000) 475,671	('000) 808,679	('000) 475,671	('000) 808,679
NAV per Unit	(HK\$) 6.71	(HK\$) 6.53	(S\$) 1.45	(S\$) 1.41

**Notes:**

- (1) After distribution of 100.0% of the pro forma distributable income for the financial year ended 31 December 2004.
- (2) Based on the exchange rate of HK\$4.6195 = S\$1.00, being the average of the exchange rates on Bloomberg at the end of each month for the entire year ended 31 December 2004.
- (3) Based on the appraised value of HK\$4,184.0 million for the Existing Properties as at 31 December 2004 and the aggregate of the lower of the two valuations of each of the Properties as at 31 December 2004 of HK\$3,628.0 million.
- (4) Including an estimated 1.8 million Units issued to the Manager in payment of its Base Fee in respect of the Properties for the period from 1 January 2004 to 31 December 2004 and 5.6 million Units issued to the Manager in payment of its Acquisition Fee assuming a price of HK\$6.10 per Unit.
- (5) Excluding negative goodwill of HK\$134.4 million of the Existing Properties and HK\$155.3 million of the Properties.

Based on the figures above, we note that the pro forma NAV per Unit after the Acquisitions will decrease 2.8% from S\$1.45 to S\$1.41, resulting from the smaller increase in the NAV of 65.5%, as compared to the 70.0% increase in the number of Issued Units.

## 5.4 Other Considerations

(i) Fees Payable to the Manager

Upon Completion, the Manager will be entitled under the terms of the trust deed dated 4 July 2003 entered into by the Trustee and the Manager (the "**Trust Deed**") to receive an Acquisition Fee of approximately HK\$34.4 million, which is equal to 1.0% of the total acquisition price of the Properties under the Sale and Purchase Agreements.

The Acquisition Fee of approximately HK\$34.4 million shall be payable to the Manager in Units, subject to and contingent upon passing of the resolution to permit the Manager to receive payment of its Acquisition Fee in Units under the Trust Deed.

As from Completion, the Manager will have the general power of management over the Properties and its main responsibility is to manage the Properties, as well as other assets and liabilities of Fortune REIT, for the benefit of Unitholders. In particular, the Manager is responsible for the day-to-day management of the assets held by Property Companies, making recommendations to the Trustee on the annual budget and the management and operation of Property Companies, and generally carrying out the activities in relation to the Properties in accordance with the provisions of the Trust Deed.

<sup>9</sup> The pro forma financial effects are based on the assumptions that Fortune REIT's gearing is increased to 31.5% following the issue of 325.6 million New Units under the Equity Fund Raising and that the aggregate of the lower of the two valuations of each of the Properties as at 31 December 2004 is HK\$3,628.0 million.

After Completion, the Manager will also be entitled under the Trust Deed to receive from Fortune REIT management fees attributable to the Properties. The forecast management fee attributable to the Properties for the financial year ending 31 December 2005 is HK\$16.9 million, comprising a base fee of HK\$10.9 million (0.3% per annum of the value of the Properties) and a performance fee of HK\$6.1 million (3.0% per annum from each of the Property Companies of the net property income of each of the Property Companies) with certain adjustments. The Manager will be entitled to the management fees in the future for so long as the Properties continue to form part of the investment portfolio of Fortune REIT.

We note that the respective percentages of the Acquisition Fees and Management Fees are in accordance to the terms of the Trust Deed dated 4 July 2003 entered into by the Trustee and the Manager.

(ii) **Related Tenancy and Licence Agreements**

Upon Completion, Fortune REIT will, through the Property Companies, take over the benefit of all the tenancy agreements and licence agreements at the Properties, including various tenancy agreements and licence agreements entered into by certain entities within the Cheung Kong Group (the “**Related Tenancy and Licence Agreements**”). The aggregate rental and licence fees derived or to be derived from the Related Tenancy and Licence Agreements for the year 2005 is estimated at approximately HK\$60.9 million.

We note that the Manager believes that the Related Tenancy and Licence Agreements are made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and Unitholders.

For further details on the Related Tenancy and Licence Agreements, please refer to Appendix 9 of the Circular.

(iii) **Novations of Certain Sale and Purchase Agreements and Deeds of Tax Covenant**

The novations by Fortune Port to the Trustee of certain of its rights, benefits and related obligations under:

- (a) the sale and purchase agreements entered into between Fortune Port and the relevant Original Vendors in connection with the City One Shatin Property and the Waldorf Garden Property; and
- (b) the deeds of tax covenant referred to in paragraph 3.6.1 of the Circular.

For details on the above, please refer to paragraph 3.5 and 3.6 of the Circular.

We note that the Manager believes that the novations of the above-mentioned sale and purchase agreements and the deeds of tax covenant are made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and Unitholders.

## **6. OUR OPINION**

In arriving at our opinion on whether each of the Acquisitions of the Properties is on normal commercial terms and whether they are prejudicial to the interests of the Trust and Unitholders, we have considered the following:

- the rationale for the Acquisitions;
- the reasonableness of the Purchase Consideration of each of the Acquisitions;
- the financial effects of the Acquisitions;
- Other considerations including:
  - fees payable to the Manager;
  - Related Tenancy and Licence Agreements; and
  - novations of certain sale and purchase agreements and deeds of tax covenant.

After carefully considering the information available to us as of, and based upon the monetary, industry, market, economic and other relevant conditions subsisting on the Latest Practicable Date and based on our considerations above, we are of the opinion that:

- in accordance with Chapter 9 of the Listing Manual, the Acquisitions are on normal commercial terms and not prejudicial to the Trust and the Unitholders, and
- in accordance with Paragraph 6 of the Property Funds Guidelines, the Acquisitions are on normal commercial terms and not prejudicial to the Unitholders, based on an assessment of the impact of the Acquisitions on the Trust on an overall basis.

Accordingly, we advise the Independent Directors to recommend that the Unitholders vote in favour of the Acquisitions.

Our opinion in relation to the Acquisitions, as disclosed in this letter, is based upon the market, economic, industry, monetary and other applicable conditions subsisting on, and the information made available to us as of, the Latest Practicable Date.

This opinion is addressed solely to the Independent Directors for their use and benefit, in connection with and for the purpose of their consideration of the Acquisitions. The recommendation to be made by them to the Unitholders shall remain the responsibility of the Independent Directors. A copy of this letter may be reproduced in the Circular. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

We have prepared this letter for the use of the Independent Directors and the Trustee in connection with and for the purpose of their consideration of the Interested Person Transactions and for inclusion in the Circular. No other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner except with the prior written consent of KPMG Corporate Finance in each specific case.

The opinion is governed by, and construed in accordance with, the law of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matters.

Your faithfully  
for and on behalf of  
**KPMG Corporate Finance Pte Ltd**

Vishal Sharma  
*Director*

Steve Kek  
*Manager*

## PROPOSED SUPPLEMENTS TO THE TRUST DEED

### BASE FEE SUPPLEMENT

The proposed form of the Base Fee Supplement is as follow:

That Clause 15.1.1 of the Trust Deed be amended in accordance with the insertions and deletions indicated by, respectively, the underlined and deleted text below:

The Manager shall be entitled to receive for its own account out of the Deposited Property within 30 days of the last day of every calendar quarter in arrear the amount of the Base Fee accrued to it and remaining unpaid. The Manager shall be entitled to alter the rate of the Base Fee to some smaller percentage than that hereinafter provided by notice to the Trustee in writing PROVIDED THAT the Manager shall give written notice of any alteration of such rate to a higher percentage within the permitted limit to all Holders, the Trustee and the Depository in respect of the Depositors, not less than three months prior to the date of effect thereof. The Base Fee shall not exceed the rate of 0.3 per cent. per annum of the Property Values (for the purposes of this Clause, the “**permitted limit**”). Any increase in the rate of the Base Fee above the permitted limit or any change in the structure of the Base Fee shall be approved by an Extraordinary Resolution of a meeting of Holders or (as the case may be) Depositors, duly convened and held in accordance with the provisions of the Schedule hereto. The Base Fee shall accrue on each day of each calendar quarter in respect of the period up to and including the last day of that calendar quarter. The amount accruing on each day of each calendar quarter shall be a sum equal to the appropriate percentage of the Property Values on the last day of the calendar quarter multiplied by the number of days in the relevant period and divided by 365. The “**appropriate percentage**” shall be the rate of Base Fee applicable on the relevant day. The Base Fee shall be payable out of the Capital Account or the Income Account as the Manager in its discretion shall decide. For an initial period of five years after the Listing Date, the Base Fee referable only to the relevant Real Estate held through the Special Purpose Vehicles acquired in respect of the initial public offering of the Trust shall be paid to the Manager in the form of Units to be issued to the Manager. After the fifth anniversary of the Listing Date, the Base Fee referable to such Real Estate shall be paid to the Manager ~~entirely~~ in the form of cash and/or Units (as the Manager may elect). When paid in the form of Units, the Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Base Fee at the prevailing Market Price at the time of the issue of such Units as determined under Clause 5.2.3. In the event payment is to be made in the form of Units and the relevant thresholds for the issuance of Units without Holders’ approval are exceeded and Holders’ approval is not obtained pursuant to Clause 5.2.6, then payment of that excess part of the Base Fee will be paid in the form of cash. The Base Fee in respect of any Real Estate (other than those referable to the relevant Real Estate acquired in respect of the initial public offering of the Trust) shall be paid in the form of cash and/or Units (as the Manager may elect). The amount of the Base Fee payable to the Manager shall be net of all applicable GST and all other applicable sales tax, governmental impositions, duties and levies whatsoever imposed thereon by the relevant authorities in Singapore or elsewhere.

### ACQUISITION FEE SUPPLEMENT

The proposed form of the Acquisition Fee Supplement is as follows:

- That Clause 15.2.1(i) of the Trust Deed be amended in accordance with the insertions indicated by the underlined text below:

“An Acquisition Fee not exceeding the rate of 1.0 per cent. of the acquisition price (for the purposes of this Clause 15.2.1(i), the “**permitted limit**”) of any Real Estate in the form of land acquired directly or indirectly by the Trust (pro-rated if applicable to the proportion of the Trust’s interest in the Real Estate acquired). Any increase in the Acquisition Fee above the permitted limit or any change in the structure of the Acquisition Fee shall be approved by an Extraordinary Resolution of a meeting of Holders or (as the case may be) Depositors duly convened and held in accordance with the provisions of the Schedule hereto. The Acquisition Fee will be paid either in the form of cash and/or Units (as the Manager may elect, such election to be irrevocable and made prior to the payment of the Acquisition Fee) to the Manager. The Acquisition Fee is payable

as soon as practicable after completion of the acquisition. When paid in the form of Units, the Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Acquisition Fee at the issue price of Units issued to finance or part finance the acquisition in respect of which the Acquisition Fee is payable or, where Units are not issued to finance or part finance the Acquisition, the prevailing Market Price at the time of the issue of such Units as determined under Clause 5.2.3. In the event payment is to be made in the form of Units and the relevant thresholds for the issuance of Units without Holders' approval are exceeded and Holders' approval is not obtained pursuant to Clause 5.2.6, then payment of that excess part of the Acquisition Fee will be paid in the form of cash. No Acquisition Fee is payable in relation to the acquisition of the Special Purpose Vehicles for the initial public offering of Units; and"

## **ISSUE PRICE SUPPLEMENT**

The proposed form of the Issue Price Supplement is as follows:

- That Clause 5.2.5 of the Trust Deed be amended by inserting the following sub-paragraph immediately after sub-paragraph (iii):

“(iv) Where Units are issued as full or partial consideration for the acquisition of an Authorised Investment by the Trust in conjunction with an issue of Units pursuant to Clause 5.2.5(i) or Clause 5.2.6 to raise Cash for the consideration for the said Authorised Investment (or part thereof) or to acquire other Authorised Investments in conjunction with the said Authorised Investment, the Manager shall have the discretion to determine that the Issue Price of Units so issued as full or partial consideration shall be the same as the Issue Price for the Units issued in conjunction therewith pursuant to Clause 5.2.5(i) or Clause 5.2.6 (as the case may be).”

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an EXTRAORDINARY GENERAL MEETING of Fortune Real Estate Investment Trust (“**Fortune REIT**”) will be held at One Raffles Boulevard, Meeting Room 308, Level 3, Suntec Singapore International Convention & Exhibition Centre, Singapore 039593 on 1 June 2005 at 2.30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions:

### ORDINARY RESOLUTIONS

#### 1. THE ACQUISITION OF THE CITY ONE SHATIN PROPERTY

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the City One Shatin Property through the acquisition of the entire issued share capital of Mightypattern Limited at the purchase consideration described in the circular dated 13 May 2005 issued by ARA Asset Management (Singapore) Limited (as manager of Fortune REIT) (the “**Manager**”) to holders of units in Fortune REIT (the “**Circular**”) and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between HSBC Institutional Trust Services (Singapore) Limited (in its capacity as the trustee of Fortune REIT) (the “**Trustee**”) and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the City One Shatin Property (as described in the Circular);
- (b) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for Fortune REIT to take over the benefits of the Related Tenancy and Licence Agreements (as defined in the Circular) in relation to the City One Shatin Property upon the completion of the acquisition of the City One Shatin Property;
- (c) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for Goodwell-Fortune Property Services Limited (the “**Property Manager**”), the existing property manager of Fortune REIT, to provide lease management services and marketing services for the City One Shatin Property on the completion of the acquisition of the City One Shatin Property pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager; and
- (d) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the City One Shatin Property.

#### 2. THE ACQUISITION OF THE WALDORF GARDEN PROPERTY

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the Waldorf Garden Property through the acquisition of the entire issued share capital of Waldorf Realty Limited at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between the Trustee and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the Waldorf Garden Property (as described in the Circular);
- (b) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for Fortune REIT to take over the benefits of the Related Tenancy and Licence Agreements (as defined in the Circular) in relation to the Waldorf Garden Property upon the completion of the acquisition of the Waldorf Garden Property;

- (c) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the Property Manager to manage the Waldorf Garden Property on the completion of the acquisition of the Waldorf Garden Property pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager; and
- (d) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the Waldorf Garden Property.

### **3. THE ACQUISITION OF THE TSING YI SQUARE PROPERTY**

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the Tsing Yi Square Property at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between the Trustee and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the Tsing Yi Square Property (as described in the Circular);
- (b) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for Fortune REIT to take over the benefits of the Related Tenancy and Licence Agreements (as defined in the Circular) in relation to the Tsing Yi Square Property upon the completion of the acquisition of the Tsing Yi Square Property;
- (c) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the Property Manager to manage the Tsing Yi Square Property on the completion of the acquisition of the Tsing Yi Square Property pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager; and
- (d) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the Tsing Yi Square Property.

### **4. THE ACQUISITION OF THE CENTRE DE LAGUNA PROPERTY**

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the Centre de Laguna Property at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between the Trustee and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the Centre de Laguna Property (as described in the Circular); and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the Centre de Laguna Property.

## 5. THE ACQUISITION OF THE LIDO GARDEN PROPERTY

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the Lido Garden Property at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between the Trustee and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the Lido Garden Property (as described in the Circular); and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the Lido Garden Property.

## 6. THE ACQUISITION OF THE RHINE GARDEN PROPERTY

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the acquisition by Fortune REIT of the Rhine Garden Property at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 23 March 2005 in this connection between the Trustee and Fortune Port Group Limited, and for payment of all fees and expenses relating to the acquisition of the Rhine Garden Property (as described in the Circular);
- (b) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for Fortune REIT to take over the benefits of the Related Tenancy and Licence Agreements (as defined in the Circular) in relation to the Rhine Garden Property upon the completion of the acquisition of the Rhine Garden Property;
- (c) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the Property Manager to manage the Rhine Garden Property on the completion of the acquisition of the Rhine Garden Property pursuant to and in accordance with the terms of the existing property management agreement dated 7 July 2003 entered into by the Trustee, the Manager and the Property Manager; and
- (d) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the acquisition of the Rhine Garden Property.

## EXTRAORDINARY RESOLUTIONS

### 7. THE ISSUE OF NEW UNITS IN FORTUNE REIT

That:

- (a) subject and contingent upon the passing of at least one of Resolutions 1 to 6, approval be and is hereby given for the purpose of Clause 5.2.6 of the trust deed dated 4 July 2003 constituting Fortune REIT (the “**Trust Deed**”) for Fortune REIT to offer and issue such number of new units in Fortune REIT (“**New Units**”) as would be required to raise up to an aggregate of HK\$1,986.1 million in gross proceeds, for placement to existing holders of Units and new investors in the manner described in the Circular (the “**Equity Fund Raising**”) and to make the Rescheduled Distribution (as defined in the Circular) as a consequence of the Equity Fund Raising; and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the Equity Fund Raising.

## 8. PLACEMENT TO FOCUS EAGLE INVESTMENTS LIMITED

That:

- (a) subject to and contingent upon the passing of Resolution 7, approval be and is hereby given for the placement of New Units under the private placement tranche of the Equity Fund Raising (as defined in the Circular) to Focus Eagle Investments Limited (“**Focus Eagle**”) at the Issue Price (as defined in the Circular), provided that no more than such number of New Units as would be required to maintain the proportionate unitholding of Focus Eagle at its pre-placement level (in percentage terms) as at the Latest Practicable Date (as defined in the Circular); and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to such placement.

## 9. SUPPLEMENTING THE TRUST DEED WITH THE FEE SUPPLEMENT

That:

- (a) approval be and is hereby given to supplement Clauses 15.1.1 and 15.2.1(i) of the Trust Deed with the Fee Supplement (as defined in the Circular) in the manner set out in **Appendix 12** of the Circular; and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the Fee Supplement.

## 10. SUPPLEMENTING THE TRUST DEED WITH THE ISSUE PRICE SUPPLEMENT

That:

- (a) approval be and is hereby given to supplement clause 5.2.5 of the Trust Deed with the Issue Price Supplement (as defined in the Circular) in the manner set out in **Appendix 12** of the Circular; and
- (b) the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and 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, the Trustee may consider expedient or necessary or in the interests of Fortune REIT to give effect to the Issue Price Supplement.

BY ORDER OF THE BOARD  
ARA ASSET MANAGEMENT (SINGAPORE) LIMITED  
(as manager of Fortune Real Estate Investment Trust)

Lim Hwee Chiang  
Director  
Singapore  
13 May 2005

### Notes:

1. A holder of Units (“**Unitholder**”) entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a Unitholder.
2. The instrument appointing a proxy must be lodged at the Manager’s registered office at 9 Temasek Boulevard, #09-01 Suntec Tower 2, Singapore 038989 not less than 48 hours before the time appointed for the Extraordinary General Meeting.

*This page has been intentionally left blank.*

# FORTUNE REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003)

## 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	NRIC/Passport Number	Proportion of Unitholdings	
			No. of Units	(%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Unitholdings	
			No. of Units	(%)

or, both of whom failing, the Chairman of the Extraordinary General Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and if necessary, to demand a poll, at the Extraordinary General Meeting of Fortune REIT to be held at One Raffles Boulevard, Meeting Room 308, Level 3, Suntec Singapore International Convention & Exhibition Centre, Singapore 039593 on 1 June 2005 at 2.30 p.m. and any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolutions to be proposed at the Extraordinary General Meeting 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 Extraordinary General Meeting.

No.	Resolutions	To be used on a show of hands		To be used in the event of a poll	
		For*	Against*	No. of Votes For**	No. of Votes Against**
	<b>ORDINARY RESOLUTION</b>				
1.	To approve the acquisition of the City One Shatin Property				
2.	To approve the acquisition of the Waldorf Garden Property				
3.	To approve the acquisition of the Tsing Yi Square Property				
4.	To approve the acquisition of the Centre de Laguna Property				
5.	To approve the acquisition of the Lido Garden Property				
6.	To approve the acquisition of the Rhine Garden Property				
	<b>EXTRAORDINARY RESOLUTION</b>				
7.	To approve the offer and issue of such number of New Units as would be required to raise up to HK\$1,986.1 million in gross proceeds for the purpose of the Equity Fund Raising, and a consequent adjustment to the distribution period of Fortune REIT				
8.	To approve the placement of New Units to Focus Eagle				
9.	To approve the Fee Supplement				
10.	To approve the Issue Price Supplement				

\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided.

\*\* 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.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2005

<b>Total number of Units held</b>

\_\_\_\_\_  
Signature(s) of Unitholder(s)/Common Seal

**IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM OVERLEAF**

## Notes To Proxy Form

1. A Unitholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or two proxies to attend and vote in his stead.
2. 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.
3. A proxy need not be a Unitholder.
4. A Unitholder should insert the total number of Units held. 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 registered in his name in the Register of Unitholders of Fortune REIT, he should insert that number of Units. If the Unitholder has Units entered against his name in the said Depository Register and registered in his name in the Register of Unitholders, he should insert the aggregate number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.
5. The instrument appointing a proxy or proxies must be deposited at the Manager’s registered office at 9 Temasek Boulevard, #09-01 Suntec Tower 2, Singapore 038989, not less than 48 hours before the time set for the Extraordinary General Meeting.
6. The instrument appointing a proxy or proxies must be 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.
7. 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.
8. 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 Extraordinary General Meeting, as certified by CDP to the Manager.
9. All Unitholders will be bound by the outcome of the Extraordinary General Meeting regardless of whether they have attended or voted at the Extraordinary General Meeting.
10. At any meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or by five or more Unitholders present in person or by proxy, or holding or representing one-tenth in value of the Units represented at the meeting. Unless a poll is so demanded a declaration by the Chairman that such a resolution has been carried or carried unanimously or by a particular majority or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
11. On a show of hands every Unitholder who (being an individual) is present in person or by proxy or (being a corporation) is present by one of its officers as its proxy shall have one vote. On a poll every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder. A person entitled to more than one vote need not use all his votes or cast them the same way.





**Fortune Real Estate Investment Trust**  
(Constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003)