

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents in this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents in this Circular.

CIRCULAR DATED 28 August 2013



FORTUNE
置富產業信託 **REIT**

FORTUNE REAL ESTATE INVESTMENT TRUST

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

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

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

Managed by

ARA Asset Management (Fortune) Limited
(An Affiliate of Cheung Kong Group)

(1) MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF THE KINGSWOOD GINZA PROPERTY, CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS; AND (2) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

Joint Lead Managers and Underwriters to the Unit Placement



Important Dates and Times for Unitholders

Record date for EGM	: 11 September 2013 (Close of business)
Latest date and time for lodgement of Proxy Form	: 14 September 2013 at 11:00 a.m.
Date and time of EGM	: 16 September 2013 at 11:00 a.m.
Place of EGM	: Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong (via video conference – Room 326, Level 3 Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593)

The Proposed Acquisition

Fortune REIT proposes to acquire Kingswood Ginza Property in Hong Kong. Kingswood Ginza Mall is the largest shopping mall in the Yuen Long District.

Kingswood Ginza Property

Location	Tin Shui Wai, Yuen Long, New Territories
Gross Rentable Area (excluding parking lots and ancillary space)	665,244 sq.ft.
Number of parking lots	622
Occupancy rate (as at 30 June 2013)	95.5%
Monthly rental per leased sq.ft. (as at 30 June 2013)	HK\$27.4
Consideration	HK\$5,849 million
Appraised values (as at 30 June 2013)	HK\$5,858 million (by JLL) HK\$5,850 million (by Savills)



THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents in this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents in this Circular.

FORTUNE
置富產業信託 **REIT**
FORTUNE REAL ESTATE INVESTMENT TRUST

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

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

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

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

- (1) MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO
THE PROPOSED ACQUISITION OF THE KINGSWOOD GINZA PROPERTY,
CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS; AND**
- (2) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS**

Joint Lead Managers and Underwriters to the Unit Placement



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



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



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

A letter to the Unitholders is set out on pages 24 to 79 of this Circular.

A notice convening the EGM to be held at 11:00 a.m. on 16 September 2013 at Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong is set out on pages N-1 to N-3 of this Circular. Any Unitholder or depositor or proxy who wishes to take part in the EGM from Singapore, may attend via video conference which shall be held at Room 326, Level 3 Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593. Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) in accordance with the instructions printed thereon as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

28 August 2013

TABLE OF CONTENTS

	<u>Page</u>
CORPORATE INFORMATION	1
DEFINITIONS	5
SUMMARY	17
INDICATIVE TIMETABLE	23
LETTER TO THE UNITHOLDERS	24
1. Introduction	24
2. The Transaction	25
3. Reasons and Benefits	38
4. Financing of the Acquisition	39
5. Information on the Kingswood Ginza Property	42
6. Financial Effects of the Transaction and the Unit Placement	49
7. Risk Factors	52
8. Connected Party Transactions, Interested Party Transactions and Interested Person Transactions as a result of the Transaction	55
9. New Continuing Connected Party Transactions	57
10. Implications under the REIT Code and the Trust Deed	68
11. Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix	72
12. Recommendations	75
13. Responsibility Statements of the Manager and the Directors	78
14. Responsibility Statements of the Joint Lead Managers and Underwriters	78
15. Extraordinary General Meeting and Closure of Register of Unitholders	78
16. Additional Information	79
LETTER FROM THE INDEPENDENT BOARD COMMITTEE AND THE AUDIT COMMITTEE ..	IBC-1
LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS	IFA-1
Appendix 1 : Financial Information of Fortune REIT	A1-1
Appendix 2 : Accountants' Report in respect of the Target Company	A2-1
Appendix 3 : Pro Forma Financial Information of the Enlarged Group	A3-1
Appendix 4 : Independent Property Valuers' Property Valuation Reports	A4-1
Appendix 5 : Market Consultant's Report	A5-1
Appendix 6 : Existing Interested Person Transactions	A6-1
Appendix 7 : Summary of Government Grant and Deeds of Mutual Covenant	A7-1
Appendix 8 : Kingswood CKH Interested Persons Tenancy and Licence Agreements	A8-1
Appendix 9 : General Information	A9-1
NOTICE OF EXTRAORDINARY GENERAL MEETING	N-1
PROXY FORM	P-1

CORPORATE INFORMATION

Fortune REIT	As constituted by the Trust Deed entered into between the Trustee and the Manager, originally dated 4 July 2003 and as amended and restated from time to time
Manager	ARA Asset Management (Fortune) Limited Singapore office and registered address: 6 Temasek Boulevard #16-02 Suntec Tower Four Singapore 038986 Hong Kong office: Units 5508-5510, 55th Floor The Center 99 Queen's Road Central Hong Kong
Directors of the Manager	Dr. Chiu Kwok Hung, Justin (<i>Chairman and Non-Executive Director</i>) Mr. Lim Hwee Chiang (<i>Non-Executive Director</i>) Mr. Ip Tak Chuen, Edmond (<i>Non-Executive Director</i>) Ms. Yeung, Eirene (<i>Non-Executive Director</i>) Mr. Ang Meng Huat, Anthony (<i>Executive Director and Chief Executive Officer</i>) Ms. Chiu Yu, Justina (<i>Executive Director and Deputy Chief Executive Officer</i>) Mr. Lim Lee Meng (<i>Independent Non-Executive Director and Lead Independent Director</i>) Mrs. Sng Sow-Mei (alias Poon Sow Mei) (<i>Independent Non-Executive Director</i>) Dr. Lan Hong Tsung, David (<i>Independent Non-Executive Director</i>) Mr. Ma Lai Chee, Gerald (<i>Alternate Director to Mr. Ip Tak Chuen, Edmond</i>)
Trustee	HSBC Institutional Trust Services (Singapore) Limited 21 Collyer Quay #10-02 HSBC Building Singapore 049320

CORPORATE INFORMATION

Joint Lead Managers and Underwriters to the Unit Placement

DBS Bank Ltd.
12 Marina Boulevard
DBS Asia Central
Marina Bay Financial Centre Tower 3
Singapore 018982

DBS Asia Capital Limited
17/F, The Center
99 Queen's Road Central
Hong Kong

Standard Chartered Securities (Hong Kong) Limited
15/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

Standard Chartered Securities (Singapore) Pte. Limited
8 Marina Boulevard, Level 19
Marina Bay Financial Centre Tower 1
Singapore 018981

Independent Financial Advisers to the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee

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

Maybank Kim Eng Securities Pte Ltd
50 North Canal Road
Singapore 059304

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

Kim Eng Securities (Hong Kong) Limited
Level 30, Three Pacific Place
1 Queen's Road East
Hong Kong

Legal Advisers to the Manager

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

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

CORPORATE INFORMATION

Legal Advisers to the Trustee

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

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

Legal Advisers to the Joint Lead Managers and Underwriters

As to Singapore law:
Allen & Overy LLP
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321

As to Hong Kong law:
Allen & Overy
9th Floor
Three Exchange Square
Central
Hong Kong

Auditors

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

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

Independent Property Valuers

Jones Lang LaSalle Limited
6th Floor, Three Pacific Place
1 Queen's Road East
Hong Kong

Savills Valuation and Professional Services Limited
23rd Floor, Two Exchange Square
Central
Hong Kong

Market Consultant

Savills (Hong Kong) Limited
23rd Floor, Two Exchange Square
Central
Hong Kong

CORPORATE INFORMATION

Singapore Unit Registrar

Boardroom Corporate & Advisory Services Pte. Limited
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

Hong Kong Unit Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

DEFINITIONS

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

Accountants' Report	The accountants' report in respect of the Target Company as set out in Appendix 2 headed "Accountants' Report in respect of the Target Company".
Acquisition	The proposed acquisition by the Trustee from the Vendor of the Target Company Shares pursuant to the Share Purchase Agreement.
Acquisition Fee	The acquisition fee which the Manager will be entitled to receive from Fortune REIT upon completion of the Acquisition.
Acquisition Fee Units	Has the meaning ascribed to this term in section 2.6.1 headed "Fees payable by Fortune REIT to the Manager in relation to the Acquisition".
Additional Continuing Connected Party Transactions	The continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property.
Aggregate Leverage	The ratio of the value of total borrowings and deferred payments (including deferred payments for assets whether to be settled in cash or in Units) to the value of the gross assets of Fortune REIT, including all its authorised investments held or deemed to be held under the Trust Deed. This definition is consistent with the definition of " aggregate leverage " set out in the Singapore Property Funds Appendix.
ARA	ARA Asset Management Limited.
Audit Committee	The audit committee of the Board comprising Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David.
Belvedere Square and Provident Square Circular	The circular published by the Manager on 28 December 2011 in respect of the acquisition of the Belvedere Garden Property and the Provident Centre Property (both terms as defined therein).
Board	The board of Directors.
Business Day	Any day (other than a Saturday, Sunday or gazetted public holiday) on which (i) commercial banks are open for business in Singapore and the SGX-ST is open for trading, and (ii) commercial banks are open for business in Hong Kong and the Hong Kong Stock Exchange is open for trading.

DEFINITIONS

CCASS	The Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.
CDP	Central Depository (Pte) Limited.
Charge-Out Collections	The air conditioning charges, management fees, promotional charges, government rates, government rents, utilities charges, cleaning and other charges payable by the tenants and licencees of the Properties.
Cheung Kong or Guarantor	Cheung Kong (Holdings) Limited.
CKH Group	Together with Cheung Kong, any person who is connected to Cheung Kong (as described in paragraphs 8.1(e), (f) or (g) of the REIT Code) and these persons include: <ul style="list-style-type: none">(i) any director, senior executive or officer of Cheung Kong;(ii) any associate (as defined in the REIT Code) of Cheung Kong or of any director, senior executive or officer of Cheung Kong; and(iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of Cheung Kong.
Completion	Completion of the Acquisition pursuant to the Share Purchase Agreement.
Completion Date	The date that Completion occurs, as more particularly described in section 2.4.4 headed "Completion".
Conditions	The conditions precedent to Completion, as more particularly described in section 2.4.5 headed "Conditions Precedent".
Connected Person	Has the meaning ascribed to this term in the REIT Code.
Consideration	The purchase consideration payable by the Trustee for the acquisition of the entire issued share capital of Tin Shui Wai Development Limited pursuant to the Share Purchase Agreement, which is agreed to be HK\$5,849 million, subject to the Current Adjustment.

DEFINITIONS

Current Adjustment	<p>The customary adjustment to the agreed sum of HK\$5,849 million for:</p> <ul style="list-style-type: none">(i) current assets (such as all receivables, refundable utility and other deposits placed with relevant authorities or suppliers, all cash and deposits at bank and all prepaid operating expenses); and(ii) current liabilities (such as all security deposits, all rental/licence fees received in advance in relation to the Kingswood Ginza Property, all payments due to creditors and accruals of property and other relevant expenses and all provision for taxation) <p>of the Target Company as at Completion but excluding the Shareholder Loan and any deferred tax liabilities of the Target Company.</p>
Deed of Ratification and Accession	<p>The deed of ratification and accession to be entered into between the Nominee, the Trustee, the Manager and the Property Manager at Completion, pursuant to which, the operation, maintenance, management and marketing of the Kingswood Ginza Property will be managed by Goodwell-Fortune Property Services Limited (being the Property Manager) subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement.</p>
Deed of Shareholder Loan Assignment	<p>The deed of shareholder loan assignment to be entered into between the Vendor and the Nominee at Completion, pursuant to which the Vendor will assign its rights, title, interest and benefit in and to the Shareholder Loan to the Nominee on a dollar-for-dollar basis at Completion.</p>
Deed of Tax Covenant	<p>The deed of tax covenant in favour of the Trustee to be entered into between the Vendor, the Guarantor and the Trustee at Completion.</p>
Deposited Property	<p>The gross assets of Fortune REIT, including the Existing Properties held in Fortune REIT's portfolio and, from and after Completion, the Kingswood Ginza Property.</p>
Directors	<p>The directors of the Manager.</p>
DMC	<p>Deed of mutual covenant (or an instrument of a similar nature), which is an agreement between the co-owners of a property to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building's effective maintenance and management.</p>
DPU	<p>Distribution per Unit.</p>

DEFINITIONS

EGM	The extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice.
EGM Notice	The notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the EGM Resolution.
EGM Record Date	11 September 2013, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined.
EGM Resolution	The Ordinary Resolution to be passed at the EGM, as set out in the EGM Notice and explained in this Circular.
Enlarged Group	Collectively, Fortune REIT and Tin Shui Wai Development Limited, a company incorporated in Hong Kong, being the owner of the Kingswood Ginza Property.
Existing CKH/Manager CPT Waiver	The waiver granted by the SFC in 2012 from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions that are summarised in the Belvedere Square and Provident Square Circular.
Existing Interested Person Transactions	Has the meaning ascribed to this term in Appendix 6 headed "Existing Interested Person Transactions".
Existing Properties	The 16 properties currently held by Fortune REIT as at the Latest Practicable Date, as described in the Introduction Listing Document and the Belvedere Square and Provident Square Circular.
Existing Property Companies	Each special purpose vehicle which is the direct or indirect owner of an Existing Property.
Fortune REIT	Fortune Real Estate Investment Trust.
Fortune REIT Group	Fortune REIT and companies or entities held or controlled by it.
Gearing Ratio	The aggregate borrowings of Fortune REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property as set out in the Fortune REIT's latest published audited accounts immediately prior to such borrowing being effected. Pursuant to the Trust Deed and in compliance with paragraph 7.9 of the REIT Code, the Gearing Ratio of Fortune REIT shall not at any time exceed 45%.
Government	The Government of the Hong Kong Special Administrative Region.

DEFINITIONS

Government Grant	The government grant entered into between the Government (as grantor) and Tin Shui Wai Development Limited (as grantee) under which the leasehold title to the Kingswood Ginza Property is leased, as described in section 1 of Appendix 7 headed "Summary of Government Grant and Deeds of Mutual Covenant".
Gross Floor Area	In respect of a Property, the gross floor area of that Property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the grounds), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, refused storage and material recovery chambers, material recovery chambers, refuse storage and material recovery rooms, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service.
Gross Property Revenue	Gross Revenue less Charge-Out Collections and car park revenues.
Gross Rentable Area	In respect of a Property, that portion of the Gross Floor Area of the relevant property determined by the Property Manager at any given time to be rentable.
Gross Rental Income	Consists of rental income and licence income due from tenancies but excludes Turnover Rent.
Gross Revenue	Consists of Gross Rental Income, Charge-Out Collections and all other income accruing or resulting from the operation of the Properties including licence fees, Turnover Rent, car park revenues and other revenues.
Group Companies	The companies which are, from time to time, directly or indirectly owned by the Trustee, and " Group Company " means any one of them.
HIBOR	The rate of interest offered on Hong Kong dollar loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year.
HK\$	Hong Kong dollars, the lawful currency of Hong Kong.

DEFINITIONS

HK Independent Financial Adviser	Kim Eng Securities (Hong Kong) Limited, a corporation licenced to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and in its capacity as the independent financial adviser for the purpose of paragraph 10.10(p) of the REIT Code.
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China.
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
Hong Kong Unit Registrar	Computershare Hong Kong Investor Services Limited, in its capacity as the Hong Kong unit registrar of Fortune REIT.
HSBC Group	HSBC Holdings plc, and other members of its group (including The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited and their respective subsidiaries).
Independent Board Committee	The independent committee of the Board established to advise the Independent Unitholders on the Transaction, comprising Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David, being all three of the independent non-executive Directors of the Manager.
Independent Financial Advisers	The HK Independent Financial Adviser and the Singapore Independent Financial Adviser.
Independent Property Valuers	JLL (appointed by the Trustee) and Savills (appointed by the Manager), each an " Independent Property Valuer ".
Independent Property Valuers' Property Valuation Reports	The valuation reports dated 26 July 2013 issued by the Independent Property Valuers in respect of the Kingswood Ginza Property, the text of which is set out in Appendix 4 headed "Independent Property Valuers' Property Valuation Reports".
Independent Unitholders	Unitholders other than those who have a material interest in the relevant transactions and who are entitled to vote at the EGM.
Interested Party	Means: <ul style="list-style-type: none"> (i) a director, chief executive officer or controlling shareholder of the Manager, the Manager, the Trustee or controlling Unitholder of Fortune REIT; or

DEFINITIONS

	(ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.
Interested Party Transaction	A transaction entered into with an "Interested Party" as governed under the Singapore Property Funds Appendix.
Interested Person	Means: <ul style="list-style-type: none">(i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling Unitholder of Fortune REIT; or(ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling Unitholder of Fortune REIT.
Interested Person Transaction	Has the meaning ascribed to it in the Singapore Listing Manual.
Introduction Listing Document	The listing document dated 31 March 2010 of Fortune REIT in connection with the listing of its Units by way of introduction on the Hong Kong Stock Exchange.
JLL	Jones Lang LaSalle Limited.
Joint Lead Managers and Underwriters	Collectively, DBS Bank Ltd., DBS Asia Capital Limited, Standard Chartered Securities (Hong Kong) Limited and Standard Chartered Securities (Singapore) Pte. Limited, as joint lead managers and underwriters in respect of the Unit Placement.
Kingswood Development	The developments known as "Kingswood Villas", "Kingswood Ginza Phase 1" and "Kingswood Ginza Phase 2" which are located in Tin Shui Wai, New Territories, Hong Kong.
Kingswood Ginza Mall	The entire shopping mall commonly known as "Kingswood Ginza", located within the Kingswood Ginza Property.
Kingswood Ginza Property	Comprises the Kingswood Ginza Mall as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserve shares and common areas within Kingswood Development, as more particularly described in section 2 of Appendix 7 headed "Summary of Government Grant and Deeds of Mutual Covenant".
Kingswood CKH Interested Persons Tenancy and Licence Agreements	Has the meaning ascribed to this term in section 11.3 headed "Kingswood CKH Interested Persons Tenancy and Licence Agreements".

DEFINITIONS

Latest Practicable Date	27 August 2013, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
Long Stop Date	The date that falls six months after the date that the Share Purchase Agreement was signed (or such other date as the Vendor and the Trustee may agree in writing).
Manager	ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of ARA, in its capacity as manager of Fortune REIT.
Manager Group	The Manager and any person who is connected to the Manager as described in paragraphs 8.1(e), (f) or (g) of the REIT Code.
Manager's Performance Fee	An annual performance fee of 3% per annum from each of the Property Companies of the Net Property Income of the relevant Property Company.
Market Consultant	Savills (Hong Kong) Limited.
Market Consultant's Report	The letter dated 28 August 2013 from the Market Consultant, the form of which is set out in Appendix 5 headed "Market Consultant's Report".
MAS	Monetary Authority of Singapore.
Modified and Extended CPT Waiver	The resulting modified and extended CKH/Manager CPT Waiver, if the proposed modifications and extensions to the Existing CKH/Manager CPT Waiver are approved by the Independent Unitholders at the EGM.
MOU Announcement	The announcement issued by the Manager dated 30 July 2013 in respect of the non-binding memorandum of understanding in relation to the Acquisition.
NAV	Net asset value.
Net Property Income	Gross Revenue less Property Operating Expenses.
New Continuing Connected Party Transactions	Collectively, (i) the continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property and (ii) the existing continuing connected party transactions that are summarised in the Belvedere Square and Provident Square Circular.
New CPT Waiver Period	The extended waiver period in respect of the Existing CKH/Manager CPT Waiver, being three financial years ending on 31 December 2015.

DEFINITIONS

New Facilities	The term loans of up to an aggregate principal amount of HK\$5,227 million to be provided to special purposes vehicle(s) to be established and wholly-owned by Fortune REIT, details of which are further set out in section 4.2 headed "New Facilities".
Nominee	A special purpose vehicle of Fortune REIT, to be nominated by the Trustee pursuant to the Share Purchase Agreement and to be incorporated in the British Virgin Islands, being the Property Company that will directly hold the Target Company Shares and the Shareholder Loan to be assigned pursuant to the Deed of Shareholder Loan Assignment.
NTA	Net tangible assets.
Ordinary Resolution	A resolution proposed and passed as such by a majority being greater than 50% of the total number of votes cast for and against such resolution at a meeting of Unitholders duly convened under the provisions of the Trust Deed.
Placement Announcements	The announcements issued by the Manager on 30 July 2013, 5 August 2013 and 6 August 2013 in respect of the placement of 142,962,000 Units by Fortune REIT, which was completed on 6 August 2013.
Post Completion Contracts	Any contracts to which the Target Company is a party that are not related to or in connection with the Kingswood Ginza Property which are not terminated or novated prior to Completion.
Properties	Collectively, the Existing Properties and the Kingswood Ginza Property, and " Property " means any one of them.
Property Companies	Collectively, the Existing Property Companies and the Target Company and, " Property Company " means any one of them.
Property Management Agreement	The property management agreement dated 7 July 2003 entered into between the Trustee, the Manager and the Property Manager (as amended by an extension letter dated 1 August 2008, supplemented by a supplemental property management agreement dated 30 April 2010 and amended by an extension letter dated 11 August 2013).
Property Manager	Goodwell-Fortune Property Services Limited, an indirect wholly-owned subsidiary of Cheung Kong, a Connected Person of Fortune REIT and a company incorporated in Hong Kong.

DEFINITIONS

Property Operating Expenses	Consists of all costs and expenses incurred by the Property Companies in the operation, maintenance, management and marketing of the Properties including property management fees, government rents and government rates, the Manager's Performance Fee and other property operating expenses.
Proposed Caps	The annual monetary limits specified in section 9.5 headed "Proposed Caps".
REIT	Real Estate Investment Trust.
REIT Code	The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
Savills	Savills Valuation and Professional Services Limited.
SFA	The Securities and Futures Act (Chapter 289 of Singapore).
SFC	The Securities and Futures Commission of Hong Kong.
SFC-Authorised REIT	A collective investment scheme in the nature of a real estate investment trust authorised by the SFC under Section 104 of the SFO.
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
SGX-ST	Singapore Exchange Securities Trading Limited.
Shareholder Loan	The aggregate amount owing from the Target Company, Tin Shui Wai Development Limited, to the Vendor as at the Completion Date.
Share Purchase Agreement	The share purchase agreement entered into between the Vendor, the Guarantor and the Trustee, pursuant to which the Vendor agrees to: (i) sell to the Trustee (or the Nominee) the Target Company Shares, with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan.
Significant Holder	Has the meaning ascribed to this term in the REIT Code.
Singapore Independent Financial Adviser	Maybank Kim Eng Securities Pte Ltd.
Singapore Listing Manual	The Listing Manual of the SGX-ST.
Singapore Property Funds Appendix	Appendix 6 of the Code on Collective Investment Schemes issued by the MAS in relation to real estate investment trusts.

DEFINITIONS

Singapore Unit Registrar	Boardroom Corporate & Advisory Services Pte. Ltd.
sq. ft.	Square foot / Square feet.
Target Company	Tin Shui Wai Development Limited, a company incorporated in Hong Kong and the owner of the Kingswood Ginza Property.
Target Company Shares	The entire issued share capital of the Target Company.
Transaction	Collectively, (1) the Acquisition and entering into and performance of the Share Purchase Agreement; (2) the entering into and performance of the Deed of Tax Covenant; (3) the entering into and performance of the Deed of Shareholder Loan Assignment; and (4) the entering into and performance of the Deed of Ratification and Accession.
Transaction Documents	Collectively, (1) the Share Purchase Agreement; (2) the Deed of Tax Covenant; (3) the Deed of Shareholder Loan Assignment; and (4) the Deed of Ratification and Accession, details of which are set out in section 2.4 headed "Share Purchase Agreement".
Transaction Matters Requiring Approval	Collectively, (1) the Transaction and the assumption of Kingswood CKH Interested Persons Tenancy and Licence Agreements; and (2) the Waiver Modification and Extension.
Trust Deed	The trust deed entered into between the Trustee and the Manager constituting Fortune REIT, dated 4 July 2003 and as amended, varied and supplemented from time to time.
Trustee	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Fortune REIT.
Turnover Rent	Rent calculated by reference to a fixed percentage of a tenant's monthly sales turnover.
Unit	One undivided unit in Fortune REIT.
Unit Placement	The placing of 142,962,000 Units by Fortune REIT which was completed on 6 August 2013, details of which are contained in the Placement Announcements.
Unitholder	Any person registered as holding a Unit and any person holding Units through CCASS or CDP.
Unrelated Licences	Any licences of the Target Company which are not relating to the Kingswood Ginza Property.

DEFINITIONS

Vendor	Mightycity Company Limited, a company incorporated in Hong Kong, which is owned in the manner described in section 2.3 headed "Current and Expected Holding Structure".
Waiver Extension	The proposed extension to the Existing CKH/Manager CPT Waiver which is due to expire on 31 December 2014.
Waiver Modification and Extension	<p>The modifications and extensions to the Existing CKH/Manager CPT Waiver to:</p> <ul style="list-style-type: none">(i) expand the scope of the Existing Continuing Connected Party Transactions to include transactions entered or to be entered into by the Target Company in respect of the Kingswood Ginza Property and the additional continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property as a result of the Completion of the Acquisition;(ii) set new annual monetary limits (as described in section 9.5) to accommodate the continuing connected party transactions summarised in the Belvedere Square and Provident Square Circular and the continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property, for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015; and(iii) extend the Existing CKH/Manager CPT Waiver which is due to expire on 31 December 2014, so that the waiver will apply for the New CPT Waiver Period.
%	Per cent or percentage.

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

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

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

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

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Words and expressions not defined herein shall have the same meanings as in the main body of this Circular unless otherwise stated. Meanings of defined terms may be found in section headed "Definitions" on pages 5 to 16 of this Circular.

INTRODUCTION

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

As at 27 August 2013 (being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular) (the "Latest Practicable Date"), Fortune REIT holds a portfolio of 16 retail malls and parking facilities in Hong Kong through the ownership of special purpose companies (the "Existing Properties").

SUMMARY OF APPROVALS SOUGHT

Overview

ARA Asset Management (Fortune) Limited, as manager of Fortune REIT (the "Manager"), wishes to inform unitholders of Fortune REIT (the "Unitholders") that Independent Unitholders' approval is being sought in relation to:

- (1) (a) the proposed acquisition (the "Acquisition") by the Trustee from the Vendor of the entire issued share capital of Tin Shui Wai Development Limited and entering into and performance of the Share Purchase Agreement; (b) the entering into and performance of the Deed of Tax Covenant; (c) the entering into and performance of the Deed of Shareholder Loan Assignment; and (d) the entering into and performance of the Deed of Ratification and Accession (collectively, the "Transaction"), and the other transactions contemplated under, associated with and/or related to the Transaction, including the assumption of the various leases or licences with members of the CKH Group (as defined herein) in respect of the Kingswood Ginza Property as described in Appendix 8 and which will continue to subsist post-Completion (the "Kingswood CKH Interested Persons Tenancy and Licence Agreements"); and
- (2) the proposed modifications and extensions to the Existing CKH/Manager CPT Waiver to:
 - (i) expand the scope of the Existing Continuing Connected Party Transactions to include transactions entered or to be entered into by the Target Company in respect of the Kingswood Ginza Property and the additional continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property as a result of the Completion of the Acquisition;

SUMMARY

- (ii) set new annual monetary limits (as described in section 9.5 headed “Proposed Caps”) to accommodate the continuing connected party transactions summarised in the Belvedere Square and Provident Square Circular and the continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property, for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015; and
 - (iii) extend the Existing CKH/Manager CPT Waiver which is due to expire on 31 December 2014 so that the waiver will apply for the New CPT Waiver Period.
- (the “**Waiver Modification and Extension**”).

Key Terms of the Acquisition

On 28 August 2013, the Trustee, the Guarantor and the Vendor entered into an agreement (the “**Share Purchase Agreement**”) pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the entire issued share capital of Tin Shui Wai Development Limited (the “**Target Company**”, and the shares of the Target Company, the “**Target Company Shares**”), with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan. The Target Company is a company incorporated in Hong Kong and wholly-owns the Kingswood Ginza Property.

The purchase consideration for the Target Company Shares (the “**Consideration**”) pursuant to the Share Purchase Agreement is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to the Current Adjustment referred to in section 2.4.2 headed “Consideration”.

The Kingswood Ginza Property comprises the entire shopping mall commonly known as “Kingswood Ginza” (the “**Kingswood Ginza Mall**”) as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserve shares and common areas within the Kingswood Development, which is located in Tin Shui Wai, Yuen Long, New Territories. While Fortune REIT will be acquiring all of the Kingswood Ginza Property (through its acquisition of the Target Company Shares), the remainder of the Kingswood Development which Fortune REIT will not be acquiring (which includes 58 residential tower blocks, the hotel known as “Harbour Plaza Resort City”, a police reporting centre, other commercial areas and parking lots) will continue to be owned by their existing owners.

(For further details, please refer to section 2 of the Letter to the Unitholders headed “The Transaction”.)

Reasons for, and Benefits of, the Acquisition

The Manager believes that the key benefits of the Acquisition are that:

(1) Yield Accretive Acquisition

The Acquisition is expected to be yield accretive and improve the earning and distribution per Unit to existing Unitholders. Based on the pro forma financials as set out in section 6 of the Letter to the Unitholders headed “Financial Effects of the Transaction and the Unit Placement”, if the Acquisition and the Unit Placement were completed on 1

SUMMARY

January 2013 and based on the other assumptions in section 6, Fortune REIT's pro forma DPU would have increased by 4.7% from 18.00 HK cents to 18.84 HK cents for the six months ended 30 June 2013. The acquisition of a yield accretive, quality income-producing property supplements the Manager's on-going asset enhancement initiatives to generate organic growth from the Existing Properties.

(2) Quality Asset in Strategic Location

The Kingswood Ginza Property has the following competitive strengths:

- **Strategically located with strong catchment area:** Being the largest shopping mall in the Yuen Long District of Hong Kong, the Kingswood Ginza Mall is strategically located in the centre of the Tin Shui Wai residential area. According to the Market Consultant's Report, the Kingswood Ginza Mall serves a total population of 287,901, representing 92,692 households. Based on the Market Consultant's Report, the median monthly household income of its primary catchment is HK\$26,966, compared to the HK\$20,500 median for Hong Kong as a whole. In addition, the Kingswood Ginza Mall also serves the hotel guests of 1,102 rooms and suites of the hotel known as "Harbour Plaza Resort City";
- **High occupancy and diversified tenant base:** It has a high occupancy rate (95.5% as at 30 June 2013) and a diversified trade mix of over 200 tenants that mainly cater to the daily necessities of the catchment population;
- **Direct accessibility to public transportation:** It is directly accessible by bus and light-rail train and within walking distance from the Tin Shui Wai MTR station; and
- **Beneficiary of demand from visitors from mainland China:** Due to its close proximity to the mainland China border, the Kingswood Ginza Property is in a good location to capture the growing demand from mainland China visitors as well as the expanding residential area nearby. Visitors from mainland China can easily gain access to Tin Shui Wai via the Hong Kong — Shenzhen Western Corridor.

(3) Greater Exposure to the Buoyant Retail Sector

The Acquisition fits the Manager's investment strategy of owning commercial properties with high occupancy and long term growth potential and provides an opportunity for further exposure to the robust retail market in Hong Kong.

Based on the Market Consultant's Report, Hong Kong retail sales value experienced a year-on-year growth of 9.8% in 2012. The growth accelerated to 15.5% year-to-year from January to April 2013 mainly due to reviving luxury spending by mainland Chinese tourists and local spending on consumer goods. In 2012, overnight tourist expenditure on shopping continued to increase by 11.9%, reaching HK\$110.7 billion and the Market Consultant believes that mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years.

According to the Market Consultant, non-core shopping centres are increasingly popular among international retailers and experienced a more resilient rental performance during market downturns. In light of the fierce competition among international brands for prime space in core areas or traditional shopping districts, some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially

SUMMARY

those seeing increasing mainland Chinese footfall. The Market Consultant expects the non-core retail rents to grow at approximately 10% to 15% per annum between 2013 to 2015.

(4) Operating Synergies

Fortune REIT will benefit from the increased portfolio size that will create a stronger platform to spread fixed operating costs over a larger portfolio and cost savings can be enjoyed, thus achieving greater operating synergies and economies of scale in operation.

Appraised Values as at 30 June 2013

The following table sets out the appraised values (as at 30 June 2013) of the Kingswood Ginza Property and the Consideration:

by JLL (appointed by the Trustee)	by Savills (appointed by the Manager)	Consideration
(HK\$ million)	(HK\$ million)	(HK\$ million)
5,858	5,850	5,849 ⁽¹⁾

Note:

(1) Before taking into account the Current Adjustment.

In arriving at the appraised valuation of Kingswood Ginza Property, the Independent Property Valuers have made use of the income capitalisation method cross-referenced with the direct comparison method.

The income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value.

The direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or were leased.

(For further details on the methods and bases of the valuations, please refer to Appendix 4 headed "Independent Property Valuers' Property Valuation Reports".)

Costs of Acquisition

The cost of the Acquisition along with the Acquisition Fee¹, the estimated stamp duty, professional and other fees and expenses to be incurred in connection with the Acquisition, is estimated to be approximately HK\$5,965 million.

(For further details, please refer to section 2.6 of the Letter to the Unitholders headed "Fees and Charges".)

¹ As the Acquisition will constitute an "Interested Party Transaction" under the Singapore Property Funds Appendix, the Acquisition Fee shall be payable to the Manager in undivided units in Fortune REIT ("Units") and such Units shall not be sold within one year from their date of issue, in accordance with paragraph 5.6 of the Singapore Property Funds Appendix.

SUMMARY

Method of Financing

The Manager currently expects to finance the Consideration by:

- (a) drawing down approximately HK\$4,902 million under the term loans of up to an aggregate principal amount of HK\$5,227 million to be provided to special purposes vehicle(s) to be established and wholly-owned by Fortune REIT, being:
 - (1) a HK\$1,066.3 million term loan to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT as borrower, which will bear interest at a margin of 1.48% per annum over HIBOR, and will mature and become repayable 5 years from the date of the agreement in respect of such facility;
 - (2) a HK\$2,340.0 million term loan to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT as borrower, which will bear interest at a margin of 1.30% per annum over HIBOR, and will mature and become repayable 3.5 years from the date of the agreement in respect of such facility;
 - (3) an unsecured term loan of HK\$1,160.7 million to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT, which will bear interest at a margin of 1.70% per annum over HIBOR, and will mature and become repayable 3.5 years from the date of the agreement in respect of such facility; and
 - (4) an unsecured term loan of HK\$660.0 million to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT, which will bear interest at a margin of 1.70% per annum over HIBOR, and will mature and become repayable 3.5 years from the date of the agreement in respect of such facility; and
- (b) using approximately HK\$947 million out of the net proceeds of the Unit Placement.

It is expected that the fees payable by Fortune REIT to the Manager in relation to the Acquisition referred to in section 2.6.1 headed "Fees payable by Fortune REIT to the Manager in relation to the Acquisition" will be paid to the Manager in the form of Acquisition Fee Units while the additional costs referred to in section 2.6.2 headed "Additional costs payable in relation to the Acquisition" will be financed by the New Facilities.

Based on the expected financing structure above and the estimated fees and charges incurred in relation to the Transaction, the Gearing Ratio / Aggregate Leverage of Fortune REIT will increase from 20.9% (as at 30 June 2013) to approximately 34.0% (immediately following Completion and the Unit Placement). Upon Completion, the Gearing Ratio and Aggregate Leverage of Fortune REIT will not exceed the borrowing limits under the Singapore Property Funds Appendix and the REIT Code, which currently limit: (a) the Aggregate Leverage to 35% (as no credit rating has been obtained by Fortune REIT); and (b) the Gearing Ratio to 45% of Fortune REIT's Deposited Property, respectively.

(For further details, please refer to section 4 of the Letter to the Unitholders headed "Financing of the Acquisition".)

SUMMARY

Risk Factors

The following provides a brief description of the risk factors in relation to the acquisition of the Kingswood Ginza Property. Unitholders should read and consider carefully the risk factors as more fully described in section 7 of the Letter to the Unitholders headed "Risk Factors":

- (a) acquisition of the Kingswood Ginza Property involves general risks relating to the acquisition of real estate;
- (b) Fortune REIT may be unable to renew leases, lease vacant space or re-lease space in the Kingswood Ginza Property as leases expire;
- (c) failure by the Vendor to fulfil its obligations under the Share Purchase Agreement and the Deed of Tax Covenant may have a material adverse effect on Fortune REIT's operations; and
- (d) there are risks to leveraging and limitations on Fortune REIT's ability to leverage.

Requirement for Independent Unitholders' Approval

As at the Latest Practicable Date, Cheung Kong was deemed to hold an aggregate indirect interest in 525,630,684 Units, which is equivalent to approximately 28.4% of the total number of Units then in issue, and is therefore regarded as a "Significant Holder" (as defined in the REIT Code) and a "controlling unitholder" (as defined in the Singapore Listing Manual and the Singapore Property Funds Appendix) of Fortune REIT.

Cheung Kong owns more than 10% of the Units and therefore is a Significant Holder of Fortune REIT. Mightycity Company Limited, being the vendor (the "**Vendor**") of the Target Company Shares, is an "associated company" (as defined in the REIT Code) and an "associate" (as defined in the Singapore Listing Manual and the Singapore Property Funds Appendix) of Cheung Kong. Accordingly, the Vendor and Cheung Kong are therefore: (i) Connected Persons; (ii) Interested Persons; and (iii) Interested Parties (each as defined herein).

Accordingly, the Acquisition and consummation of the transactions contemplated under, associated with and/or related to the Share Purchase Agreement constitute: (a) connected party transactions of Fortune REIT under paragraph 8.5 of the Code on Real Estate Investment Trusts published by the Securities and Futures Commission of Hong Kong (the "**REIT Code**"); (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Listing Manual of the SGX-ST (the "**Singapore Listing Manual**"); and (c) Interested Party Transactions under paragraph 5 of Appendix 6 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore (the "**MAS**") in relation to real estate investment trusts (the "**Singapore Property Funds Appendix**"), and are thus subject to the approval of Independent Unitholders by way of an Ordinary Resolution at the EGM.

In addition, as the Consideration represents approximately 49.1% of the total market capitalisation of Fortune REIT, based on the average closing price of Fortune REIT on the Hong Kong Stock Exchange for the five trading days immediately preceding the Latest Practicable Date, the Transaction also constitutes a major acquisition by Fortune REIT under the relevant Hong Kong rules and regulations.

The Vendor is a company incorporated in Hong Kong and is owned in the manner described in section 2.3 headed "Current and Expected Holding Structure".

INDICATIVE TIMETABLE

Event	Date & Time
Latest date and time for lodging transfers of Units to participate and vote in the EGM	11 September 2013 (4:30 p.m. for Hong Kong Unitholders/5:00 p.m. for Singapore Unitholders)
Book closure period (both days inclusive) to determine the eligibility of Unitholders to participate and vote in the EGM	12 to 16 September 2013
Latest date and time for lodging proxy forms for the EGM	14 September 2013 at 11:00 a.m.
EGM Record Date	Close of business on 11 September 2013
Date and time of the EGM	16 September 2013 at 11:00 a.m.
If the approvals sought at the EGM are obtained:	
Drawdown under the New Facilities	To be determined by the Manager (but within one month from the date of signing of the loan agreement(s) in respect of the New Facilities)
Completion of the Acquisition	To be determined by the Manager (but no later than the Long Stop Date)

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

The completion of the Acquisition is subject to and conditional upon satisfaction of certain conditions (as set out in section 2.4.5 of the Letter to the Unitholders headed "Conditions Precedent"), which includes Independent Unitholders' approval being obtained at the EGM, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of Fortune REIT, are advised to exercise caution when dealing in the Units.

FORTUNE
置富產業信託 **REIT**

FORTUNE REAL ESTATE INVESTMENT TRUST

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

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

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

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

Directors of the Manager:

Non-Executive Directors

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

Executive Directors

Mr. Ang Meng Huat, Anthony
Ms. Chiu Yu, Justina

Independent Non-Executive Directors

Mr. Lim Lee Meng (*Lead Independent Director*)
Mrs. Sng Sow-Mei (alias Poon Sow Mei)
Dr. Lan Hong Tsung, David

Alternate Director

Mr. Ma Lai Chee, Gerald
(*Alternate Director to Mr. Ip Tak Chuen, Edmond*)

Singapore Office and Registered Office:

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

Hong Kong Office:

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

28 August 2013

To: Unitholders of Fortune REIT

Dear Sir/Madam,

**(1) MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO
THE PROPOSED ACQUISITION OF THE KINGSWOOD GINZA PROPERTY,
CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS; AND**

(2) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

1. INTRODUCTION

The purposes of this Circular are: (1) to provide you with further information in respect of, among other things, the Transaction Matters Requiring Approval; (2) to set out the recommendation of the Independent Board Committee and the Audit Committee in relation to the Transaction Matters Requiring Approval; (3) to set out the recommendation of the

LETTER TO THE UNITHOLDERS

Independent Financial Advisers to the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee in relation thereto; and (4) to serve notice of the EGM.

The EGM Resolution seeks Independent Unitholders' approval for the Transaction Matters Requiring Approval (being the Transaction, the assumption of Kingswood CKH Interested Persons Tenancy and Licence Agreements and the Waiver Modification and Extension), as more fully described in this Circular.

2. THE TRANSACTION

2.1 Overview

Reference is made to the announcement issued by the Manager dated 30 July 2013 in respect of the non-binding memorandum of understanding in relation to the Acquisition (the "**MOU Announcement**") and the announcements issued by the Manager on 30 July 2013, 5 August 2013 and 6 August 2013 in respect of the Unit Placement (collectively, the "**Placement Announcements**").

The MOU Announcement sets out the key terms of a non-binding memorandum of understanding (the "**MOU**") in connection with the proposed acquisition of 100% of the issued share capital of the Target Company by, and assignment of the Shareholder Loan (as defined below) to, Fortune REIT. The Placement Announcements set out details in respect of the placement of 142,962,000 Units that was completed on 6 August 2013.

On 28 August 2013, the Trustee, the Guarantor and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan (as defined below). Upon Completion, Fortune REIT will (through the Target Company) hold the Kingswood Ginza Property. The terms and conditions of the Share Purchase Agreement are consistent with the corresponding provisions of the MOU disclosed in the MOU Announcement.

The purchase consideration for the Target Company Shares is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to a customary adjustment for the current assets and current liabilities of the Target Company at Completion but excluding any deferred tax liabilities of the Target Company.

The Vendor is incorporated in Hong Kong and its principal business activity is investment holding. The Vendor is indirectly held as to 100% by the CKH Group (which includes Cheung Kong) and is therefore considered to be: (i) a Connected Person; (ii) an Interested Person; and (iii) an Interested Party, and accordingly the Acquisition and consummation of the transactions contemplated under the Share Purchase Agreement constitute: (a) connected party transactions of Fortune REIT under paragraph 8.5 of the REIT Code; (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Singapore Listing Manual; and (c) Interested Party Transactions under paragraph 5 of the Singapore Property Funds Appendix. As at the Latest Practicable Date, Cheung Kong, being the Guarantor, was deemed to hold an aggregate indirect of approximately 28.4% of the Units, and therefore is a Significant Holder (as defined in the REIT Code) of Fortune REIT, and a "controlling unitholder" (as defined in the Singapore Listing Manual and the Singapore Property Funds Appendix) of Fortune REIT.

LETTER TO THE UNITHOLDERS

The Target Company is incorporated in Hong Kong and wholly-owns the Kingswood Ginza Property. As at the Latest Practicable Date, its principal business activity was property investment in Kingswood Ginza Property. As at the Latest Practicable Date, the Target Company did not hold any other property investments or operate any businesses. For further information as to the holding structure of the Vendor and Target Company, please refer to section 2.3 headed "Current and Expected Holding Structure".

Unitholders should note that the Accountants' Report set out in Appendix 2 relates to the consolidated financial information of the Target Company group for each of the three years ended 31 December 2010, 31 December 2011, and 31 December 2012 and the six months ended 30 June 2013, which (among other things) includes financial information in respect of assets and liabilities of the hotel and serviced suites that were subsequently transferred by the Target Company to Target Company's fellow subsidiary on 26 July 2013. For further details of the disposal of the hotel and serviced suites, please see Note 27 of the Accountants' Report. As such assets and liabilities no longer form part of the Target Company, they will not be acquired by Fortune REIT pursuant to the Acquisition. Accordingly, Unitholders as well as prospective investors of Fortune REIT are advised to exercise caution when reviewing the Accountants' Report and dealing in the Units. For financial information in respect of the retail properties segment of the Target Company group (which does not include the hotel and serviced suites), please see Note 5 of the Accountants' Report. For the unaudited pro forma consolidated statement of financial position of the Enlarged Group assuming the Acquisition had taken place on 30 June 2013 and the hotel and serviced suites had been disposed of, please see Appendix 3 headed "Pro Forma Financial Information of the Enlarged Group".

2.2 Acquisition of the Kingswood Ginza Property

On 28 August 2013, the Trustee, the Guarantor and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan. Upon Completion, Fortune REIT will (through the Target Company) hold the Kingswood Ginza Property.

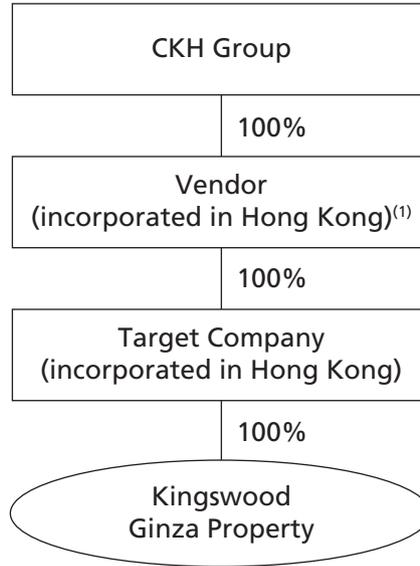
The purchase consideration for the Target Company Shares under the Share Purchase Agreement is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to a customary adjustment for current assets and current liabilities referred to in section 2.4.2 headed "Consideration".

The Kingswood Ginza Property comprises the entire shopping mall commonly known as "Kingswood Ginza" (the "**Kingswood Ginza Mall**") as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserve shares and common areas within the Kingswood Development which is located in Tin Shui Wai, Yuen Long, New Territories. While Fortune REIT will be acquiring all of the Kingswood Ginza Property, the remainder of the Kingswood Development which Fortune REIT will not be acquiring (which includes 58 residential tower blocks, the hotel known as "Harbour Plaza Resort City", a police reporting centre, other commercial areas and parking lots) will continue to be owned by their existing owners.

Further details regarding the Kingswood Ginza Property are contained in section 5 headed "Information on the Kingswood Ginza Property".

2.3 Current and Expected Holding Structure

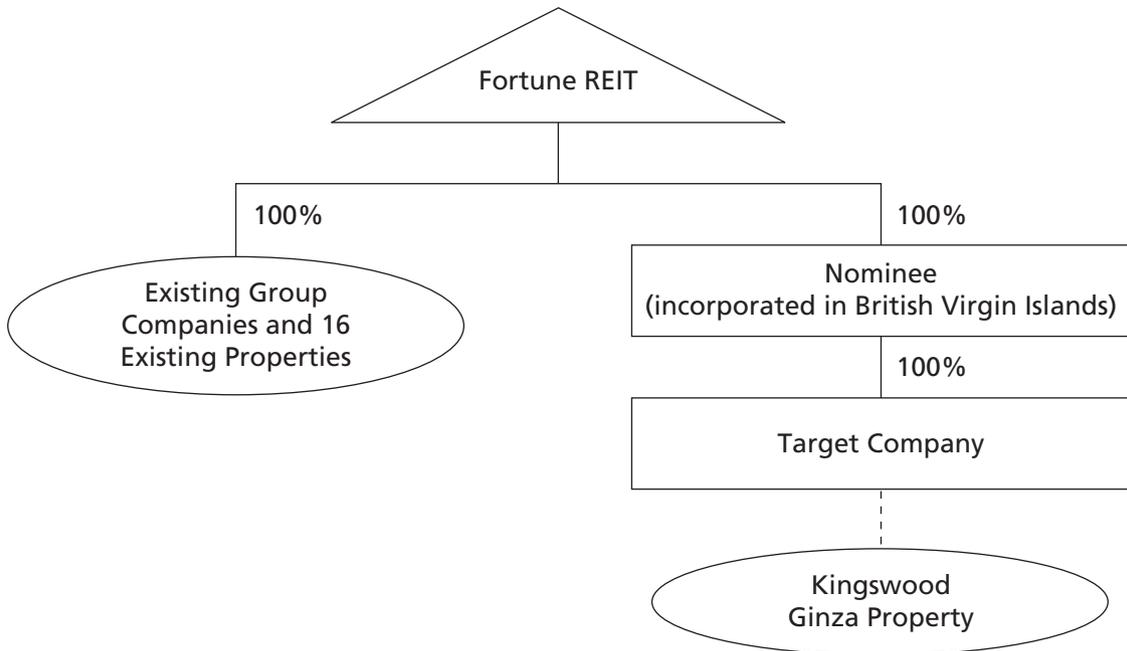
Below is a chart showing the holding structure of the Kingswood Ginza Property as at the date of this Circular:



Note:

(1) The Vendor is an indirect subsidiary of Cheung Kong.

The expected holding structure of the Kingswood Ginza Property immediately after Completion is as follows:



2.4 Share Purchase Agreement

2.4.1 General

On 28 August 2013, the Trustee, the Guarantor and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the aggregate amount owing from the Target Company to the Vendor as at the Completion Date (the **"Shareholder Loan"**). Upon Completion, Fortune REIT will (through the Target Company) hold the Kingswood Ginza Property.

The Vendor is incorporated in Hong Kong and its principal business activity is investment holding. The Vendor is indirectly held as to 100% by the CKH Group and is therefore considered to be: (i) a Connected Person; (ii) an Interested Person; and (iii) an Interested Party, and accordingly the Acquisition and consummation of the transactions contemplated under the Share Purchase Agreement constitute: (a) connected party transactions of Fortune REIT under paragraph 8.5 of the REIT Code; (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Singapore Listing Manual; and (c) Interested Party Transactions under paragraph 5 of the Singapore Property Funds Appendix. For further information, please refer to sections 10 and 11 headed "Implications under the REIT Code and the Trust Deed" and "Implications under the Singapore Listing Manual and the Singapore Property Funds Appendix". As at the Latest Practicable Date, Cheung Kong, being the Guarantor, was deemed to hold an aggregate indirect of approximately 28.4% of the Units, and therefore is a Significant Holder (as defined in the REIT Code) of Fortune REIT, and a "controlling unitholder" (as defined in the Singapore Listing Manual and the Singapore Property Funds Appendix) of Fortune REIT.

The Kingswood Ginza Property is sold on an "as-is" basis and subject to the existing leases, tenancies and licences.

The Guarantor has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Vendor under the Share Purchase Agreement and the due and punctual performance and observance by the Vendor of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Share Purchase Agreement.

2.4.2 Consideration

The Consideration is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to a customary adjustment (the **"Current Adjustment"**) for:

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

LETTER TO THE UNITHOLDERS

of the Target Company as at Completion but excluding the Shareholder Loan and any deferred tax liabilities of the Target Company. The deferred tax liabilities represent the tax allowances previously claimed by the Target Company in respect of the Kingswood Ginza Property. As the Kingswood Ginza Property is to be held by Fortune REIT for long term investment purposes, the Manager is of the view that such deferred tax liabilities are unlikely to be crystallised, and therefore have been excluded.

The Share Purchase Agreement provides that prior to Completion, the Vendor must procure that any amounts owed to or from the Target Company are repaid or transferred, as applicable, so that the only outstanding loan owed to or from the Target Company as at Completion is the Shareholder Loan. The Shareholder Loan of the Target Company as at the Latest Practicable Date amounted to approximately HK\$1,086 million, subject to finalisation of the amount of the Shareholder Loan as at Completion.

The Current Adjustment will be set out in a pro forma completion balance sheet to be provided by the Vendor to the Manager and the Trustee shortly prior to Completion. Such pro forma completion balance sheet sets out the projected adjusted asset value of the Target Company as at Completion. The Current Adjustment will be audited within 90 days after Completion with a view to making any final adjustments to reflect the final adjusted asset value of the Target Company (such adjustments may be applicable either in favour of the Trustee or the Vendor).

The Current Adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Manager and the Trustee on other transactions in the past. The Consideration shall be applied: (i) firstly, as payment on a dollar-for-dollar basis for the assignment to the Trustee (or the Nominee) of the Shareholder Loan; and (ii) thereafter, as payment for the transfer of the Target Company Shares.

As the liabilities will be discharged or dealt with in the manner described above, the Manager does not consider it necessary to adjust the Consideration for non-current assets or liabilities. Also, the Share Purchase Agreement contains covenants that, among others: (a) require the Target Company not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict the Target Company from entering into any agreement or incurring any commitment involving material expenditure (in an amount exceeding HK\$500,000), without the prior written consent of the Trustee; and (c) restrict the Target Company from incurring additional borrowing, and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee. These contractual protections mitigate the risk to Fortune REIT of any possible adverse changes to the assets of the Target Company arising from acts or omissions of the Vendor.

The final adjusted purchase consideration for the Kingswood Ginza Property shall be announced by the Manager as soon as practicable following the determination of such adjustments, together with the quantum of the adjustment amounts.

The Consideration for the Kingswood Ginza Property has been arrived at after taking into account of various factors, including, among others: (i) the valuations of the Kingswood Ginza Property by the Independent Property Valuers; (ii) the uniqueness and scarcity of Kingswood Ginza Property as the largest shopping centre in Yuen Long District; (iii) the strategic location of the Kingswood Ginza Property in Tin Shui Wai where it serves a total population of approximately 288,000 people within the

LETTER TO THE UNITHOLDERS

catchment area; and (iv) on a willing buyer and a willing seller in an arm's-length transaction basis. The valuations by the Independent Property Valuers as at 30 June 2013 are summarised in the table below.

Appraised Values as at 30 June 2013

by JLL (appointed by the Trustee)	by Savills (appointed by the Manager)	Consideration
(HK\$ million)	(HK\$ million)	(HK\$ million)
5,858	5,850	5,849 ⁽¹⁾

Note:

(1) Before taking into account the Current Adjustment.

The Consideration represents a discount of less than 0.2% from both of the appraised values of the Kingswood Ginza Property as valued by JLL and Savills respectively.

In arriving at the appraised valuation of Kingswood Ginza Property, the Independent Property Valuers have made use of the income capitalisation method cross-referenced with the direct comparison method. The income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or were leased. For further details on the methods and bases of the valuations, please refer to Appendix 4 headed "Independent Property Valuers' Property Valuation Reports".

2.4.3 Vendor's Hive-Out Obligations

The Share Purchase Agreement also provides that prior to Completion, the Vendor will procure the Target Company to:

- (i) dispose of all its assets other than: (a) the Kingswood Ginza Property; (b) the fixed plant and equipment located in or on or which otherwise relate to the Kingswood Ginza Property or its operations; and (c) the current assets that will be adjusted for pursuant to the Current Adjustment;
- (ii) discharge all of its liabilities, other than: (a) the Shareholder Loan, (b) the current liabilities that will be adjusted for pursuant to the Current Adjustment; (c) the provision of deferred tax liabilities relating to the Kingswood Ginza Property that will be the subject of a Vendor indemnity (including claw back of taxation in respect of allowances as more particularly described in section 2.4.8 headed "Deed of Tax Covenant"); and (d) immaterial liabilities that have been taken into account when determining the unadjusted Consideration;
- (iii) transfer or assign any licences of the Target Company, which are not relating to the Kingswood Ginza Property (the "Unrelated Licences"); and

LETTER TO THE UNITHOLDERS

- (iv) terminate or novate all rights and obligations under any contracts to which the Target Company is a party, which are not related to or in connection with the Kingswood Ginza Property (the “**Unrelated Contracts**”).

To the extent any Unrelated Contracts are not terminated or novated prior to Completion (the “**Post Completion Contracts**”), the Vendor irrevocably and unconditionally undertakes to the Trustee that it shall novate or terminate the Post Completion Contracts (other than those Post Completion Contracts which shall expire on or before 31 December 2013), as soon as possible after Completion and in any event on or before 31 December 2013, such that the Target Company shall be unconditionally and irrevocably discharged and released from any liability, cost and obligation under these Post Completion Contracts in any event before 31 December 2013.

2.4.4 Completion

Completion shall take place 5 days (or such other date as the Vendor and the Trustee may mutually agree) after the Conditions set out in section 2.4.5 headed “Conditions Precedent” have been fulfilled, or if later, the date following 5 days after the outstanding pre-completion obligations of the Vendor set out in paragraphs (iii) and (iv) of section 2.4.3 headed “Vendor’s Hive-Out Obligations” are fulfilled (the “**Completion Date**”).

As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred. Such announcement will, among other things, contain further details regarding the Nominee.

2.4.5 Conditions Precedent

Completion is subject to and conditional upon satisfaction of the following conditions (collectively, the “**Conditions**”):

- (1) the passing of the EGM Resolution in relation to the Transaction Matters Requiring Approval by the Independent Unitholders;
- (2) no event or circumstance arising that prohibits or materially restricts the sale and purchase of the Target Company Shares and/or the Kingswood Ginza Property and/or the assignment of the Shareholder Loan pursuant to the REIT Code, the Hong Kong Listing Rules, the Singapore Listing Manual, the SFA and/or the Code on Collective Investment Schemes (including the Singapore Property Funds Appendix) issued by the MAS;
- (3) no material damage to the Kingswood Ginza Property and no material breach of the warranties given by the Vendor which, in the reasonable opinion of the Trustee, acting on the recommendation of the Manager, will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of the Target Company or on the Kingswood Ginza Property, in each case, taken as a whole;
- (4) the licences, authorisations, orders, grants, confirmations, consents, permissions, registrations and other approvals necessary for or in respect of the Acquisition and the assignment of the Shareholder Loan having been obtained from third parties (including governmental or official authorities, courts or other regulatory bodies) on terms reasonably satisfactory to the

LETTER TO THE UNITHOLDERS

Manager and such licences, authorisations, orders, grants, confirmations, consents, permissions, registrations and other approvals remaining in full force and effect;

- (5) no statute, regulation or decision which would prohibit, restrict or materially delay or adversely affect the sale and purchase of the Target Company Shares or the operation of the Target Company having been proposed, enacted or taken by any governmental or official authority; and
- (6) the obtaining of the New Facilities and the New Facilities being in place and available for drawdown at Completion.

In the event that any of the Conditions shall not have been fulfilled prior to the Long Stop Date, then neither the Trustee nor the Vendor shall be bound to proceed with the Acquisition and the Share Purchase Agreement shall terminate.

The Share Purchase Agreement also provides the Trustee with the right to rescind or terminate (as the case may be) the Share Purchase Agreement by notice in writing to the Vendor, if prior to Completion:

- (a) the government or other competent authority shall acquire or give notice of acquisition or resumption or intended acquisition or resumption of whole or a substantial part of the underlying property; or
- (b) it shall be found that any of the warranties under the Share Purchase Agreement was, when given, or will be or would be, at Completion not complied with or otherwise untrue or misleading in any material respect, and which will have a material adverse effect on the financial condition, earnings, business or assets of the Target Company and/or the Kingswood Ginza Property, taken as a whole.

In the event of termination, the Share Purchase Agreement will terminate save for certain provisions such as confidentiality which shall remain binding as between the parties.

2.4.6 Representations and Warranties

The Share Purchase Agreement contains customary representations and warranties given by the Vendor in respect of the Target Company and Kingswood Ginza Property, including: (a) that the Target Company Shares and the Kingswood Ginza Property shall be free and clear of all encumbrances at Completion; and (b) at Completion, the Target Company shall not have any operations or business other than the ownership of the Kingswood Ginza Property. The Vendor undertakes to indemnify and keep indemnified the Trustee to the fullest extent permissible by law against any and all losses which the Trustee or the Target Company may suffer which arises out of or in connection with a breach by the Vendor of any of the warranties.

The Share Purchase Agreement also sets out limitations on the liability of the Vendor in respect of any breach of warranties or other provisions of the Share Purchase Agreement. The maximum aggregate liability of the Vendor in respect of all claims under the Share Purchase Agreement (including in respect of the above breaches and pursuant to the indemnities referred to in section 2.4.7 headed "Covenants and Indemnities" below) shall not exceed the consideration payable by the Trustee under the Share Purchase Agreement. The Trustee shall not be entitled to

LETTER TO THE UNITHOLDERS

recover from the Vendor under the Share Purchase Agreement more than once in respect of the same damage suffered. The Share Purchase Agreement also provides for a limitation period of 21 months from the Completion Date for all claims relating to warranties (other than claims relating to tax-related warranties, in which case the limitation period is seven years from the Completion Date). The Manager considers that such limitations are on normal commercial terms following arm's length negotiations between the relevant parties, are consistent with other transactions that Fortune REIT has entered into in the past, are fair and reasonable, and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

2.4.7 Covenants and Indemnities

Pursuant to the Share Purchase Agreement, the Vendor irrevocably undertakes to indemnify and keep indemnified the Trustee to the fullest extent permissible by law against any and all losses which the Trustee or the Target Company may suffer which arises out of or in connection with:

- (a) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company or the Trustee resulting from any outstanding legal proceedings relating to the Target Company as at the Completion;
- (b) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company suffered or incurred in connection with the Post Completion Contracts; and
- (c) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company suffered or incurred in connection with being the holder of any Unrelated Licences.

Pursuant to the Share Purchase Agreement, the Vendor also irrevocably undertakes to indemnify and keep indemnified the Trustee to the fullest extent permissible by law against any and all losses which the Trustee or the Target Company may suffer which arises out of or in connection with any costs, expenses, premium, penalties, waiver fees, approval fees, administrative fees, tolerance fees, liabilities, losses and damages whatsoever that may be incurred or suffered by the Target Company relating to or as a result of any non-conformity of the number, layout and/or use of the car parking spaces at Kingswood Ginza Property with the latest car park layout plans approved under the Government Grant and/or any mistake(s), error(s) and/or irregularity(ies) whatsoever contained in the Deed of Mutual Covenant of Kingswood Ginza Property.

In respect of the non-conformity of the car park layout plans, pursuant to special condition (34)(c) of the Government Grant, the grantee shall maintain the parking, loading and unloading facilities and bicycle storage spaces in accordance with the car park layout plans approved by the Director of Lands and shall not alter the layout except with the prior written consent of the Director of Lands.

According to the latest car park layout plans as approved under the Government Grant (the "**Latest Layout Plans**"), the total number of car parking spaces permitted for basement 2 of Kingswood Ginza Phase 1 is 192.

LETTER TO THE UNITHOLDERS

However, according to the first schedule to the relevant DMC, there should be 194 commercial car parking spaces in the said basement 2. Moreover, the plans annexed to the relevant DMC (the “**DMC Plans**”) are not the Latest Layout Plans.

Pursuant to the Share Purchase Agreement, the Vendor will procure the Target Company to use its best endeavours to, prior to Completion, rectify any non-conformity of the number, layout and/or use of the car parking spaces at the Kingswood Ginza Property with the latest car park layout plans approved under the Government Grant, and any mistake(s), error(s) and/or irregularity(ies) whatsoever contained in the DMC of the Kingswood Ginza Property. To rectify the non-conformity and in order that there is no amendment to the undivided shares and the DMC, it is intended that the Target Company will amend the Latest Layout Plans by moving two car parking spaces from other floor(s) to the said basement 2 so as to comply with the description of the numbers of the car parking spaces in the DMC (the “**Amendment**”), and will obtain the approvals from the Director of Lands, and (if required) the Building Authority and any other competent authority(ies) for the Amendment. The total number of the commercial car parking spaces to be purchased will not be affected. In the event that the Amendment is not completed prior to Completion, the Target Company will continue to proceed with the Amendment, and the costs of which will be indemnified by the Vendor. The Manager considers that, having considered legal advice, since the total number of commercial car parking spaces to be purchased will not be affected, there are no foreseeable difficulties in obtaining the approval of the Director of Lands in respect of the Amendment.

Subject to the compliance with all Government’s requirements as to rectification or ratification of the unauthorised change of the car park’s layout and non-conformity with the Government Grant, e.g. payment of any penalties, waiver/forbearance fees imposed by the Government, etc., there is no real risk of re-entry by the Government. It is difficult to estimate the amount of penalties, waiver/forbearance fees as it is entirely at the Government’s discretion. Subject to the limitation on the liability of the Vendor, being the consideration payable by the Trustee under the Share Purchase Agreement, the Vendor has agreed in the Share Purchase Agreement to bear all costs and expenses for the Amendment and (if required) the rectification of the DMC Plans, and to indemnify the Trustee against any costs, expenses, premium, penalties, waiver fees, approval fees, administrative fees, tolerance fees, liabilities, losses and damages relating to or as a result of the non-conformity as aforesaid. Such indemnity is not subject to any limitation period under the Share Purchase Agreement, but may be subject to a limitation period of six years from the date on which the cause of action accrued for actions founded on contracts according to the general limitation laws in Hong Kong.

The Manager considers that the financial impact of the non-conformity not material and the Manager does not foresee that the non-conformity will cause material adverse impact on Fortune REIT.

2.4.8 Deed of Tax Covenant

Pursuant to the Share Purchase Agreement, the Vendor, the Guarantor and the Trustee will enter into a deed of tax covenant in favour of the Trustee (the "**Deed of Tax Covenant**") at Completion. Pursuant to the Deed of Tax Covenant, the Vendor will covenant to indemnify the Trustee in respect of (among others):

- (1) any liability for taxation (including profit tax, stamp duty, penalty, surcharge and others) resulting from any payment, utilisation of loss or relief, transaction or occurrence of whatever nature occurring on or before Completion or in respect of any gross receipts, economic interest, income, profits or gains earned, accrued or received by the Target Company, on or before Completion;
- (2) any liability for taxation relating to underpayment or claw back of taxation arising from or in respect of any payment, utilisation of loss or relief, allowance, transaction or occurrence of whatever nature occurring on or before Completion (including the transactions contemplated in the Share Purchase Agreement);
- (3) potential liability for taxation in relation to accounting re-classification from trading stock to investment property, of such part of Kingswood Ginza Property which is classified as stock of properties in the books of the Target Company, on or after Completion; and
- (4) all reasonable costs and expenses properly incurred (including legal and professional fees) and payable by the Target Company or the Trustee in connection with a successful claim under the Deed of Tax Covenant.

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

The Guarantor has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Vendor under the Deed of Tax Covenant and the due and punctual performance and observance by the Vendor of all its obligations, commitments and undertakings under or pursuant to the Deed of Tax Covenant.

2.4.9 Deed of Shareholder Loan Assignment

Pursuant to the Share Purchase Agreement, the Vendor must procure that prior to Completion, any amounts owed to or from the Target Company are repaid or transferred, as applicable, so that the only outstanding loan owed to or from the Target Company as at Completion is the Shareholder Loan.

The Vendor and the Trustee have agreed that a deed of shareholder loan assignment (the "**Deed of Shareholder Loan Assignment**") be entered into at Completion, pursuant to which the Vendor will assign its rights, title, interest and benefit in and to the Shareholder Loan to the Nominee on a dollar-for-dollar basis on Completion. For the avoidance of doubt, the consideration payable for the assignment of the Shareholder Loan is part of the Consideration payable under the Share Purchase Agreement.

2.4.10 Guarantee of the Vendor's Obligations under the Share Purchase Agreement and the Deed of Tax Covenant

As disclosed in section 2.4.1 headed "Share Purchase Agreement — General" and section 2.4.8 headed "Deed of Tax Covenant", the Guarantor has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Vendor under the Share Purchase Agreement and the Deed of Tax Covenant and the due and punctual performance and observance by the Vendor of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Share Purchase Agreement and the Deed of Tax Covenant.

2.4.11 Deed of Ratification and Accession

At Completion, the Nominee, the Trustee, the Manager and the Property Manager will enter into a deed of ratification and accession (the "**Deed of Ratification and Accession**"). Pursuant to the Deed of Ratification and Accession, the operation, maintenance, management and marketing of the Kingswood Ginza Property will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement.

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

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

2.5 Arm's Length Terms

The Share Purchase Agreement and other Transaction Documents have been entered into, or shall be entered into, by the parties thereto on normal commercial terms following arm's length negotiations.

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Kingswood Ginza Property. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code and the Manager's compliance manual. Immediately upon Completion, Fortune REIT will hold good marketable legal and beneficial title in the Kingswood Ginza Property.

2.6 Fees and Charges

The estimated total fees and charges payable by Fortune REIT in relation to the Acquisition are HK\$116 million. Accordingly, the total cost of the Acquisition (including fees and charges) is estimated to amount to approximately HK\$5,965 million, subject to the

LETTER TO THE UNITHOLDERS

Current Adjustment. This estimated total cost of the Acquisition represents approximately 35.0% of Fortune REIT's audited NAV of HK\$17,058.5 million as at 30 June 2013 and 33.5% of such NAV as enlarged by the Acquisition.

2.6.1 Fees payable by Fortune REIT to the Manager in relation to the Acquisition

On Completion, the Manager will be entitled under clause 15.2.1 of the Trust Deed to receive an acquisition fee of HK\$58.49 million, which is equal to 1.0% of the acquisition price (i.e. HK\$5,849 million) for the Kingswood Ginza Property (the "Acquisition Fee"). The Acquisition Fee shall be paid to the Manager in the form of Units (the "Acquisition Fee Units") as soon as practicable after Completion. The Acquisition Fee will not be subject to the Current Adjustment.

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

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

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

2.6.2 Additional costs payable in relation to the Acquisition

Fortune REIT incurred or is expected to incur other estimated fees and expenses (including stamp duty, advisory fees, professional fees and expenses) of HK\$58 million in connection with the Acquisition.

2.6.3 Ongoing fees and charges payable to the Manager and the Trustee in relation to the Kingswood Ginza Property following Completion

After Completion, and as disclosed in the Introduction Listing Document:

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

LETTER TO THE UNITHOLDERS

The Manager and the Trustee will be entitled to such fees attributable to the Kingswood Ginza Property in the future for so long as the Kingswood Ginza Property continues to form part of the Deposited Property. Other than as mentioned in paragraph (b) above, no other fees are payable to the Trustee in respect of the Acquisition.

3. REASONS AND BENEFITS

3.1 Reasons for, and Benefits of the Acquisition

The Manager believes that the key benefits of the Acquisition are that:

(1) Yield Accretive Acquisition

The Acquisition is expected to be yield accretive and improve the earning and distribution per Unit to existing Unitholders. Based on the pro forma financials as set out in section 6 headed "Financial Effects of the Transaction and the Unit Placement", if the Acquisition and the Unit Placement were completed on 1 January 2013 and based on the other assumptions in section 6, Fortune REIT's pro forma DPU would have increased by 4.7% from 18.00 HK cents to 18.84 HK cents for the six months ended 30 June 2013. The acquisition of a yield accretive, quality income-producing property supplements the Manager's on-going asset enhancement initiatives to generate organic growth from the Existing Properties.

(2) Quality Asset in Strategic Location

The Kingswood Ginza Property has the following competitive strengths:

- **Strategically located with strong catchment area:** Being the largest shopping mall in the Yuen Long District of Hong Kong, the Kingswood Ginza Mall is strategically located in the centre of the Tin Shui Wai residential area. According to the Market Consultant's Report, the Kingswood Ginza Mall serves a total population of 287,901, representing 92,692 households. Based on the Market Consultant's Report, the median monthly household income of its primary catchment is HK\$26,966, compared to the HK\$20,500 median for Hong Kong as a whole. In addition, the Kingswood Ginza Mall also serves the hotel guests of 1,102 rooms and suites of the hotel known as "Harbour Plaza Resort City";
- **High occupancy and diversified tenant base:** It has a high occupancy rate (95.5% as at 30 June 2013) and a diversified trade mix of over 200 tenants that mainly cater to the daily necessities of the catchment population;
- **Direct accessibility to public transportation:** It is directly accessible by bus and light-rail train and within walking distance from the Tin Shui Wai MTR station; and
- **Beneficiary of demand from visitors from mainland China:** Due to its close proximity to the mainland China border, the Kingswood Ginza Property is in a good location to capture the growing demand from mainland China visitors as well as the expanding residential area nearby. Visitors from mainland China can easily gain access to Tin Shui Wai via the Hong Kong — Shenzhen Western Corridor.

(3) Greater Exposure to the Buoyant Retail Sector

The Acquisition fits the Manager's investment strategy of owning commercial properties with high occupancy and long term growth potential and provides an opportunity for further exposure to the robust retail market in Hong Kong.

Based on the Market Consultant's Report, Hong Kong retail sales value experienced a year-on-year growth of 9.8% in 2012. The growth accelerated to 15.5% year-to-year from January to April 2013 mainly due to reviving luxury spending by mainland Chinese tourists and local spending on consumer goods. In 2012, overnight tourist expenditure on shopping continued to increase by 11.9%, reaching HK\$110.7 billion and the Market Consultant believes that mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years.

According to the Market Consultant, non-core shopping centres are increasingly popular among international retailers and experienced a more resilient rental performance during market downturns. In light of the fierce competition among international brands for prime space in core areas or traditional shopping districts, some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially those seeing increasing mainland Chinese footfall. The Market Consultant expects the non-core retail rents to grow at approximately 10% to 15% per annum between 2013 to 2015.

(4) Operating Synergies

Fortune REIT will benefit from the increased portfolio size that will create a stronger platform to spread fixed operating costs over a larger portfolio and cost savings can be enjoyed, thus achieving greater operating synergies and economies of scale in operation.

4. FINANCING OF THE ACQUISITION

4.1 Overview

The purchase consideration for the Kingswood Ginza Property (being the Consideration) is HK\$5,849 million, subject to the Current Adjustment.

At Completion: (a) HK\$4,902 million of the Consideration will be financed by drawing down on the New Facilities; and (b) the remainder of the Consideration, being HK\$947 million, subject to the Current Adjustment, will be financed from the net proceeds of the Unit Placement. It is expected that the fees payable by Fortune REIT to the Manager in relation to the Acquisition referred to in section 2.6.1 headed "Fees payable by Fortune REIT to the Manager in relation to the Acquisition" will be paid to the Manager in the form of Acquisition Fee Units while the additional costs referred to in section 2.6.2 headed "Additional costs payable in relation to the Acquisition" will be financed by the New Facilities.

4.2 New Facilities

The Manager has on 30 July 2013 signed mandate letters with DBS Bank Ltd. and Standard Chartered Bank (Hong Kong) Limited in relation to term loans of up to an aggregate principal amount of HK\$5,227 million, which will comprise:

LETTER TO THE UNITHOLDERS

- (1) a HK\$1,066.3 million term loan to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT as borrower, which will bear interest at a margin of 1.48% per annum over HIBOR. Such term loan will mature and become repayable 5 years from the date of the agreement in respect of such facility, and be secured by, among others: (i) a charge over rentals, deposits, sales proceeds and all other income generated from the shopping centre known as "Metro Town" located in Tseung Kwan O, New Territories, Hong Kong received by such borrower (and Mega Gain Resources Limited, which holds the legal and economic interest in the "Metro Town" property and Marvel Point Investments Limited, which is the parent company of Mega Gain Resources Limited); (ii) an assignment of the rights in the insurance policies (other than third party liability insurances) and in the tenancy agreements relating to the "Metro Town" property held by such borrower (and Mega Gain Resources Limited and Marvel Point Investments Limited); (iii) a charge over the shares of such borrower (and Mega Gain Resources Limited and Marvel Point Investments Limited); (iv) a legal charge over the "Metro Town" property; (v) an assignment of the rights in the relevant property management agreements relating to the "Metro Town" property held by such borrower (and Mega Gain Resources Limited and Marvel Point Investments Limited); and (vi) charge over all other assets of such borrower (and Mega Gain Resources Limited and Marvel Point Investments Limited) in relation to the "Metro Town" property;
- (2) a HK\$2,340.0 million term loan to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT as borrower, which will bear interest at a margin of 1.30% per annum over HIBOR. Such term loan will mature and become repayable 3.5 years from the date of the agreement in respect of such facility, and be secured by, among others: (i) a charge over rentals, deposits, sales proceeds and all other income generated from the Kingswood Ginza Property received by such borrower, the Nominee and Target Company; (ii) an assignment of the rights in the insurance policies (other than third party liability insurances) and in the tenancy agreements relating to the Kingswood Ginza Property held by such borrower, the Nominee and the Target Company; (iii) a charge over the shares of such borrower, the Nominee and the Target Company; (iv) a legal charge over the Kingswood Ginza Property; (v) an assignment of the rights in the relevant property management agreements relating to the Kingswood Ginza Property held by such borrower, the Nominee and the Target Company; and (vi) a charge over all other assets of such borrower, the Nominee and the Target Company in relation to the Kingswood Ginza Property;
- (3) an unsecured term loan of HK\$1,160.7 million to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT, which will bear interest at a margin of 1.70% per annum over HIBOR, and will mature and become repayable 3.5 years from the date of the agreement in respect of such facility; and
- (4) an unsecured term loan of HK\$660.0 million to be provided to a special purpose vehicle to be established and wholly-owned by Fortune REIT, which will bear interest at a margin of 1.70% per annum over HIBOR, and will mature and become repayable 3.5 years from the date of the agreement in respect of such facility

(collectively, the "New Facilities").

LETTER TO THE UNITHOLDERS

The Trustee (and if applicable, the relevant intermediate holding companies and subsidiaries holding the legal and economic interest in the relevant property) will provide an unconditional and irrevocable guarantee in favour of the lenders. The Manager intends to draw down HK\$4,902 million under the New Facilities at Completion to finance the payment of part of the Consideration.

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

4.3 Unit Placement

The Manager successfully closed the placement of 142,962,000 Units to institutional and/or other professional investors, who are not Connected Persons of Fortune REIT, at an issue price of HK\$6.82 per Unit (the "Issue Price"). The new Units were issued on 6 August 2013 and listed on both SGX-ST and the Hong Kong Stock Exchange on 7 August 2013.

The gross proceeds from the Unit Placement amounted to approximately HK\$975 million and the net proceeds from the Unit Placement amounted to approximately HK\$947 million, after deducting the advisory, underwriting, selling and management fee and other estimated fees and expenses (including professional fees and expenses) incurred in connection with the Unit Placement.

The Manager intends to use HK\$947 million from the net proceeds of the Unit Placement to finance the payment of part of the Consideration.

4.4 Expected Gearing Ratio and Aggregate Leverage

Based on the financing structure as described in section 4.1 headed "Overview" and the estimated fees and charges incurred in relation to the Transaction, the Gearing Ratio / Aggregate Leverage of Fortune REIT will increase from 20.9% (as at 30 June 2013) to approximately 34.0% (immediately following Completion and the Unit Placement). Upon Completion, the Gearing Ratio and Aggregate Leverage of Fortune REIT will not exceed the borrowing limits under the Singapore Property Funds Appendix and the REIT Code which currently limit: (a) the Aggregate Leverage to 35% (as no credit rating has been obtained by Fortune REIT); and (b) the Gearing Ratio to 45% of Fortune REIT's deposited property, respectively.

5. INFORMATION ON THE KINGSWOOD GINZA PROPERTY

5.1 The Kingswood Ginza Property

5.1.1 Description

Fortune REIT will acquire the Kingswood Ginza Property, which comprises the entire shopping mall commonly known as “Kingswood Ginza” as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserve shares and common areas within the Kingswood Development.

The Kingswood Ginza Property will be wholly-owned by Fortune REIT through the Target Company. The Target Company is a special purpose vehicle, whose principal business activity was the ownership and operation of the Kingswood Ginza Property as at the Latest Practicable Date. A chart showing the property holding structure of Fortune REIT immediately after Completion is included in section 2.3 headed “Current and Expected Holding Structure”.

5.1.2 Surrounding Environment

The Kingswood Ginza Property is located in Tin Shui Wai, Yuen Long, New Territories. It is part of the Kingswood Development, a large scale development which includes 58 residential tower blocks, the hotel known as “Harbour Plaza Resort City”, a police reporting centre, other commercial areas and parking lots.

The Kingswood Ginza Property serves the local needs within the Kingswood Development and the residential catchment of nearby estates.

The Kingswood Ginza Property is in close proximity to the Tin Shui Wai MTR station and is easily accessible by private and public transportation such as taxis and franchised buses for shoppers. Further, the Kingswood Ginza Property is located only 15 minutes away from the Wetland Park via Light Rail Transit, which is a key tourist spot for both local and overseas visitors.

5.1.3 Key Information

The table below sets out certain key information on the Kingswood Ginza Property as at 30 June 2013, unless otherwise indicated.

Address	Nos. 12 and 18 Tin Yan Road; Nos. 1 and 3 Tin Wu Road; No. 8 Tin Shui Road; Nos. 2 and 9 Tin Lung Road and No.3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories
Year and month of completion	Phase 1 of the Kingswood Ginza Mall — December 1998 Phase 2 of the Kingswood Ginza Mall — January 1999 Other retail, kindergarten, parking lots and ancillary spaces — October 1992 to December 1997
Government Lease Expiry	30 June 2047

LETTER TO THE UNITHOLDERS

Gross Rentable Area (excluding parking lots and ancillary spaces)⁽¹⁾	665,244 sq. ft.
Number of parking lots	622
Number of tenants	206
Monthly rental per leased sq. ft.⁽²⁾	HK\$27.4
Occupancy rate⁽³⁾	95.5% ⁽⁴⁾
Net Property Income for the six months ended 30 June 2013⁽⁵⁾	HK\$110.4 million
Appraised values as at 30 June 2013⁽⁶⁾	HK\$5,858 million as valued by JLL (appointed by the Trustee) HK\$5,850 million as valued by Savills (appointed by the Manager)

Notes:

- (1) The percentage of total Gross Rentable Area leased to Connected Persons as at 30 June 2013 was 15.6%.
- (2) The monthly rental per leased sq. ft. is calculated by dividing Gross Rental Income for the month ended 30 June 2013 by leased Gross Rentable Area as at 30 June 2013.
- (3) The occupancy rate is calculated based on leased Gross Rentable Area excluding the parking lots and ancillary spaces as at 30 June 2013.
- (4) The percentage of total Gross Rental Income from Connected Persons for the month ended 30 June 2013 was 15.8%.
- (5) Calculated by deducting Property Operating Expenses from Gross Revenue based on information provided by the Vendor. Gross Revenue consists of Gross Rental Income, Charge-out Collections and all their income accruing or resulting from the operation of the Kingswood Ginza Property, including licence fees, Turnover Rent, parking lot revenues and other revenues. Property Operating Expenses consist of all costs and expenses incurred by the Target Company in the operation, maintenance, management and marketing of the Kingswood Ginza Property.
- (6) According to the Independent Property Valuation Reports, the average estimated net property yield of the Kingswood Ginza Property is 3.95%. It is within the range of the property Yields of the Existing Properties. This is one of the key considerations by the Manager in deciding to enter into this Acquisition.

LETTER TO THE UNITHOLDERS

5.1.4 Tenant Profile and Details of Tenancy Mix

The table below sets out details of the overall tenant diversification of the Kingswood Ginza Property, in terms of trade sub-sector by reference to total Gross Rentable Area as at 30 June 2013 and total Gross Rental Income for the month ended 30 June 2013:

Trade sector	Percentage by Gross Rentable Area	Percentage by Gross Rental Income	Name of major tenants in the relevant sector
Banking & Real Estate Services	6.4%	20.8%	Midland Realty
Community Services	1.3%	0.3%	—
Electronics, IT	1.2%	1.5%	—
Fashion & Shoes	5.4%	11.3%	—
Food & Beverages	20.8%	19.2%	Province Hot-pot and Seafood Restaurant
Gifts & Speciality, Hobbies, Toys, Jewellery	3.4%	3.9%	—
Homeware & Home Furnishing	6.3%	4.7%	—
Leisure & Entertainment, Sports & Fitness. Services, Education	7.1%	3.3%	—
Supermarket	26.0%	17.2%	Gigamind Kindergarten
Others	13.4%	9.5%	Park'N Shop Superstore
	4.2%	8.3%	The Hong Kong Jockey Club
Vacant	4.5%	N/A	—
Total	100.0%	100.0%	—

5.1.5 Schedule of Tenancy Expiries

The following table sets forth details of the percentage of expiries in respect of the tenancies of the Kingswood Ginza Property as at 30 June 2013, which are scheduled to take place during the periods indicated below:

Period	Gross Rentable Area of tenancies expiring as a percentage of total Gross Rentable Area	Gross Rental Income of tenancies expiring as a percentage of total Gross Rental Income ⁽¹⁾
Year ending 31 December 2013	12.2%	18.3%
Year ending 31 December 2014	45.5%	42.6%
Year ending 31 December 2015	29.0%	30.0%
Year ending 31 December 2016	8.1%	9.1%
Year ending 31 December 2017 and beyond	0.7%	0.0%
Vacant	4.5%	N/A
Total	100.0%	100.0%

Note:

(1) Based on total Gross Rental Income for the month ended 30 June 2013.

5.1.6 Delinquency Rates

In respect of the Kingswood Ginza Property, provisions for unpaid rents were less than 0.01% of the Gross Revenue for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013.

5.2 Insurance

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

5.3 Tenancy Agreements

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

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

At the time of entering into a tenancy, tenants of the Kingswood Ginza Property are required to provide a security deposit of approximately two or three months' rent, as well as building management fees and the Government rates in cash or in the form of a bank guarantee in lieu of cash. Security deposits are unsecured and do not bear interest. Tenants generally are required to pay their monthly rent in advance. Consistent with market practice, rent-free periods which are less than two months in general, varying depending on market conditions, are commonly granted on tenancies.

Under the tenancies, tenants are normally responsible for payment of outgoings including utilities, building management fees, Government rates and Government rent. Tenants are generally also responsible for repair costs and for all other expenses relating to the interior of the premises, while the landlord is generally responsible for repair costs relating to the main structure. In the event that the premises or any part of it is rendered unfit for use or inaccessible by fire, typhoon, act of God, force majeure or by any cause

LETTER TO THE UNITHOLDERS

beyond the control of the landlord other than as a result of the negligence or fault of the tenants, the tenants are usually entitled to rent abatement after expiration of the then current month until the premises shall again be rendered fit for occupation. Tenants are generally not permitted to assign or sublet the premises, except in certain cases where assignment or subletting to entities within the same group is permitted.

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

Certain tenants have also entered into agreements for certain signage or other ancillary rights in respect of the Kingswood Ginza Property.

5.4 Ownership

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

- (1) to develop or redevelop the land in compliance with the buildings and town planning legislation and regulations;
- (2) to use the land and buildings erected on the land for the permitted use;
- (3) to maintain all buildings erected on the land in good and substantial repair and condition;
- (4) to pay the yearly government rent¹ and discharge all taxes, rates, charges and assessments imposed on the land; and
- (5) not to encroach upon or occupy any adjoining Government land.

The Government has a right to terminate the lease and re-enter the land in the event the lessee fails to observe or perform the terms and conditions of the Government Grant. For further information regarding the Government Grant, please see Appendix 7 headed "Summary of Government Grant and Deeds of Mutual Covenant".

A chart showing the property holding structure of Fortune REIT immediately after Completion is included in section 2.3 headed "Current and Expected Holding Structure".

¹ The current rate of Government rent payable is equivalent to 3% of the rateable value for the time being of the Kingswood Ginza Property per annum.

5.5 Management Strategy for the Properties

5.5.1 Overall Strategy

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

5.5.1.1 Proactive Lease Management

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

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

5.5.1.2 Continual Improvement in Tenant Mix

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

5.5.1.3 Active Marketing and Promotion

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

5.5.1.4 Asset Enhancement Initiatives

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

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

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

5.5.1.5 Control Property Expenses while Delivering Quality Service

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

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

5.5.2 Management of the Kingswood Ginza Property

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

5.6 Competition

The Kingswood Ginza Property is located in an established residential area and benefits from a large population within its immediate catchment area. In addition, it is well-served by public transportation systems which add to the ease of the shopper access. The Kingswood Ginza Property caters mainly to the daily needs and necessities of the residents in the catchment area. Based on the Market Consultant's Report, the Kingswood Ginza Property is the largest shopping mall within its primary and secondary catchment and there is no direct competition when considering its location, size, catchment profile and trade and tenant mix.

The Market Consultant has analysed the competitive conditions of the Kingswood Ginza Property. For details, please refer to Appendix 5 headed "Market Consultant's Report".

6. FINANCIAL EFFECTS OF THE TRANSACTION AND THE UNIT PLACEMENT

6.1 Pro Forma Financial Effects of the Acquisition and the Unit Placement

The pro forma financial effects of the Acquisition and the Unit Placement on DPU and NAV below are strictly for illustrative purposes and were prepared based on:

- (a) the audited consolidated financial statements of Fortune REIT for the year ended 31 December 2012;
- (b) the audited consolidated financial statements of Fortune REIT for the six months ended 30 June 2013; and
- (c) the audited financial statements of the Target Company for the year ended 31 December 2012 and for the six months ended 30 June 2013 as set out in Appendix 2 headed "Accountants' Report in respect of the Target Company",

and assuming:

- (i) Fortune REIT had acquired the Kingswood Ginza Property on the date as indicated and that they were valued at the Consideration on such date;
- (ii) the Consideration is HK\$5,849 million subject to Current Adjustment;
- (iii) the Consideration was funded from the net proceeds of the Unit Placement of HK\$947 million, and the remainder was funded out of the New Facilities at a blended interest margin of 1.48% per annum over HIBOR;
- (iv) 8,930,000 Units are issued to the Manager in satisfaction of the Acquisition Fee at HK\$6.55 per Unit being the closing market price per Unit of Fortune REIT quoted from the Hong Kong Stock Exchange on the Latest Practicable Date; and
- (v) Fortune REIT had conducted the Unit Placement on the date as indicated.

The Manager considers the above assumptions to be appropriate and reasonable as at the date of this Circular. However, Unitholders should consider the information outlined below in light of such assumptions and make their own assessment of the future performance of Fortune REIT.

LETTER TO THE UNITHOLDERS

Based on the pro forma financial effects of the Acquisition and the Unit Placement as stated in this section as well as Appendix 3 headed "Pro Forma Financial Information of the Enlarged Group" which provides a more detailed illustration of the financial effects of the Acquisition and the Unit Placement, the Manager does not foresee any material adverse impact on the financial position of Fortune REIT as a result of the Acquisition and the Unit Placement.

6.2 Financial Year ended 31 December 2012

6.2.1 Pro Forma DPU

The pro forma financial effects of the Acquisition and the Unit Placement on the DPU for the financial year ended 31 December 2012, as if the Acquisition and the Unit Placement were completed on 1 January 2012, and Fortune REIT had held and operated the Kingswood Ginza Property through to 31 December 2012, are as follows:

	Actual	After the Acquisition and the Unit Placement
Net Property Income (HK\$'000)	788,275	993,239
Distributable Income (HK\$'000)	549,462	624,844
Issued Units ('000)	1,700,225	1,854,796
DPU (HK cents)	32.35	33.69

6.3 As at 31 December 2012

6.3.1 Pro Forma NAV per Unit

The pro forma financial effects of the Acquisition and the Unit Placement on the NAV per Unit as at 31 December 2012, as if the Acquisition and the Unit Placement were completed on 31 December 2012, are as follows:

	Actual	After the Acquisition and the Unit Placement
NAV (HK\$'000)	14,977,709	15,744,213
Issued Units ('000)	1,700,225	1,852,117
NAV per Unit (HK\$)	8.81	8.50

LETTER TO THE UNITHOLDERS

6.3.2 Pro Forma Capitalisation

The following table sets forth the pro forma capitalisation of Fortune REIT as at 31 December 2012, as if Fortune REIT had completed the Acquisition and the Unit Placement on 31 December 2012.

	Actual (HK\$'000)	After the Acquisition and the Unit Placement (HK\$'000)
Short-term debt:		
Secured debt	940,000	940,000
Unsecured debt	—	—
Total short-term debt	940,000	940,000
Long-term debt:		
Secured debt	3,930,000	7,336,300
Unsecured debt	—	1,783,385
Total long-term debt	3,930,000	9,119,685
Total debt	4,870,000	10,059,685
Net assets attributable to Unitholders	14,977,709	15,744,213
Total capitalisation	19,847,709	25,803,898

6.4 Six Months ended 30 June 2013

6.4.1 Pro Forma DPU

The pro forma financial effects of the Acquisition and the Unit Placement on the DPU for the six months ended 30 June 2013, as if the Acquisition and the Unit Placement were completed on 1 January 2013, and Fortune REIT had held and operated the Kingswood Ginza Property through to 30 June 2013, are as follows:

	Actual	After the Acquisition and the Unit Placement
Net Property Income (HK\$'000)	437,580	544,827
Distributable Income (HK\$'000)	306,965	350,000
Issued Units ('000)	1,704,731	1,857,951
DPU (HK cents)	18.00	18.84

LETTER TO THE UNITHOLDERS

6.5 As at 30 June 2013

6.5.1 Pro Forma NAV per Unit

The pro forma financial effects of the Acquisition and the Unit Placement on the NAV per Unit as at 30 June 2013, as if the Acquisition and the Unit Placement were completed on 30 June 2013, are as follows:

	<u>Actual</u>	<u>After the Acquisition and the Unit Placement</u>
NAV (HK\$'000)	17,058,487	17,823,688
Issued Units ('000)	1,704,731	1,856,623
NAV per Unit (HK\$)	10.01	9.60

6.5.2 Pro Forma Capitalisation

The following table sets forth the pro forma capitalisation of Fortune REIT as at 30 June 2013, as if Fortune REIT had completed the Acquisition and the Unit Placement on 30 June 2013.

	<u>Actual</u> (HK\$'000)	<u>After the Acquisition and the Unit Placement</u> (HK\$'000)
Short-term debt:		
Secured debt	840,000	840,000
Unsecured debt	—	—
Total short-term debt	<u>840,000</u>	<u>840,000</u>
Long-term debt:		
Secured debt	3,927,953	7,334,253
Unsecured debt	—	1,667,682
Total long-term debt	<u>3,927,953</u>	<u>9,001,935</u>
Total debt	<u>4,767,953</u>	<u>9,841,935</u>
Net assets attributable to Unitholders	<u>17,058,487</u>	<u>17,823,688</u>
Total capitalisation	<u><u>21,826,440</u></u>	<u><u>27,665,623</u></u>

7. RISK FACTORS

7.1 Risks attached to acquisition of the Kingswood Ginza Property

The acquisition of the Kingswood Ginza Property involves general risks relating to acquisition of real estate, including, but not limited to:

- (1) adverse changes in political or economic conditions;
- (2) adverse local market conditions;
- (3) the financial condition of tenants and buyers and sellers of properties;

LETTER TO THE UNITHOLDERS

- (4) changes in availability of debt or equity financing, which may result in an inability by Fortune REIT to finance future acquisitions on favourable terms or at all;
- (5) changes in interest rates and other operating expenses;
- (6) changes in environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- (7) environmental claims arising in respect of real estate;
- (8) changes in market rents;
- (9) changes in energy prices;
- (10) changes in the relative popularity of property types and locations leading to an oversupply of space or a reduction in tenant demand for a particular type of property in a given market;
- (11) competition among property owners for tenants which may lead to vacancies or an inability to rent space on favourable terms, as further described in section 5.6 headed "Competition";
- (12) inability to renew tenancies or re-let space as existing tenancies expire;
- (13) inability to collect rents from tenants on a timely basis or at all due to bankruptcy or insolvency of tenants or otherwise;
- (14) insufficiency of insurance coverage or increases in insurance premiums;
- (15) increases in the rate of inflation;
- (16) inability of the Property Manager to provide or procure the provision of adequate maintenance and other services;
- (17) defects affecting the portfolio properties which need to be rectified, or other required repair and maintenance of the portfolio properties, leading to unforeseen capital expenditure;
- (18) breach of the terms and conditions in the relevant government grant of the portfolio properties, including unapproved uses of the portfolio properties, may give rise to the right on the part of the Government to terminate the government grant, re-enter the property and/or impose fines and penalties;
- (19) the relative illiquidity of real estate investments;
- (20) considerable dependence on cash flows for the maintenance of, and improvements to, the portfolio properties;
- (21) increased operating costs, including real estate taxes;
- (22) any interest and encumbrance that cannot be or has not been revealed by a land search conducted at the Land Registry at the time of the search;
- (23) fire or other damage to the properties; and

LETTER TO THE UNITHOLDERS

(24) acts of God, uninsurable losses and other factors.

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

7.2 Fortune REIT may be unable to renew leases, lease vacant space or re-lease space in the Kingswood Ginza Property as leases expire

As at 30 June 2013, leases representing approximately 18.3%, 42.6%, 30.0% and 9.1% of the total Gross Rental Income of the Kingswood Ginza Property for the month ended 30 June 2013 were scheduled to expire in 2013, 2014, 2015 and 2016 respectively. The Manager cannot assure Unitholders that leases will be renewed or that the Kingswood Ginza Property will be re-leased at rental rates equal to or above the current average rental rates.

7.3 Failure by the Vendor to fulfil its obligations under the Share Purchase Agreement and the Deed of Tax Covenant may have a material adverse effect on Fortune REIT's operations

Under the Share Purchase Agreement and the Deed of Tax Covenant, the Vendor is subject to certain obligations in favour of the Trustee which will continue after Completion, including the following obligations (being the "Continuing Obligations"):

- (1) to pay amounts that may be due to the Trustee pursuant to the adjustment mechanisms stated in the Share Purchase Agreement;
- (2) to compensate the Trustee in the event of any breach of the representations and warranties made by the Vendor under the Share Purchase Agreement; and
- (3) to indemnify the Trustee for certain tax liabilities as described in the Deed of Tax Covenant.

For a further description of the Continuing Obligations, please see section 2.4 headed "Share Purchase Agreement". Failure by the Vendor to fulfil any of the Continuing Obligations may have a material adverse effect on Fortune REIT's operations.

7.4 There are risks to leveraging and limitations on Fortune REIT's ability to leverage

Fortune REIT is expected to use leverage in connection with the Acquisition and its other investments. In addition, Fortune REIT may, from time to time, require additional debt financing to fund working capital requirements, to support the future growth of its business and/or to refinance existing debt obligations. Borrowings by Fortune REIT are subject to the borrowing limits under the Singapore Property Funds Appendix and the REIT Code which currently limit: (a) the Aggregate Leverage to 35% (and up to 60% if Fortune REIT obtains and discloses its credit rating from Fitch Inc., Moody's or Standard & Poor's); and (b) the Gearing Ratio to 45% of Fortune REIT's deposited property, respectively.

Under the Singapore Property Funds Appendix, there will be a breach of the 35.0% borrowing limit restriction if the Manager incurs additional borrowings that bring the aggregate leverage of Fortune REIT above 35.0% and no credit rating from Fitch Inc.,

LETTER TO THE UNITHOLDERS

Moody's or Standard & Poor's is obtained and disclosed by Fortune REIT. If, however, the 35.0% borrowing limit is crossed due to circumstances beyond the Manager's control, and there is a depreciation in the value of Fortune REIT's properties or any redemption of Units, while this would not constitute a breach under the Singapore Property Funds Appendix, Fortune REIT will not be allowed to incur additional borrowings until such time it obtains and discloses credit rating from Fitch Inc., Moody's or Standard & Poor's or the Aggregate Leverage falls below 35.0%. This may potentially affect the Manager's ability in carrying out its plans which involve a large capital requirement including asset enhancement projects or acquisitions. In the event the 35.0% borrowing limit is crossed due to the above-mentioned circumstances, the Manager will first obtain the aforementioned credit rating and disclose the credit rating to Unitholders, before any additional borrowings are incurred by Fortune REIT, to ensure compliance with the Singapore Property Funds Appendix.

The inability to obtain such credit rating or a decline in the value of Fortune REIT's assets may affect Fortune REIT's ability to make further borrowings. Currently, Fortune REIT's Aggregate Leverage/Gearing Ratio is approximately 34.0% (immediately following Completion and the Unit Placement) and is within the aforementioned borrowing limits. There can be no assurance that Fortune REIT's borrowings will not cross such borrowing limits due to circumstances beyond the Manager's control, and there is a depreciation in the value of Fortune REIT's properties or any redemption of Units. From time to time, Fortune REIT may need to draw down on its banking facilities and use overdrafts, but may be unable to do so due to the above-mentioned borrowing limits.

7.5 Additional Risks

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

8. CONNECTED PARTY TRANSACTIONS, INTERESTED PARTY TRANSACTIONS AND INTERESTED PERSON TRANSACTIONS AS A RESULT OF THE TRANSACTION

In connection with or following the Transaction, the Manager, the Trustee, the Nominee, the Guarantor and/or the Target Company have entered or will enter into a number of transactions with certain Connected Persons, Interested Parties and/or Interested Persons of Fortune REIT. These transactions include the following:

8.1 Share Purchase Agreement

The Trustee entered into the Share Purchase Agreement with the Vendor and the Guarantor for the sale and purchase of the Target Company Shares on 28 August 2013. For further details of the Share Purchase Agreement, please refer to section 2.4 headed "Share Purchase Agreement".

8.2 Deed of Tax Covenant

The Vendor (along with the Guarantor) will enter into a Deed of Tax Covenant in favour of the Trustee at Completion. For further details of the Deed of Tax Covenant, please refer to section 2.4.8 headed "Deed of Tax Covenant".

8.3 Deed of Shareholder Loan Assignment

The Vendor will assign the Shareholder Loan to the Nominee at Completion. For details of the Deed of Shareholder Loan Assignment, please refer to section 2.4.9 headed “Deed of Shareholder Loan Assignment”.

8.4 Deed of Ratification and Accession

Each of the Nominee, the Trustee, the Manager and the Property Manager will enter into the Deed of Ratification and Accession at Completion. For details of the Deed of Ratification and Accession, please refer to section 2.4.11 headed “Deed of Ratification and Accession”.

8.5 Pre-existing Agreements in respect of the Kingswood Ginza Property

The Target Company has entered into agreements with the CKH Group, the Manager Group and the HSBC Group (each as defined herein) in relation to the Kingswood Ginza Property, that will continue to subsist after Completion. These agreements comprise:

8.5.1 Deed of Mutual Covenant in respect of the Kingswood Ginza Property

In Hong Kong, the relationship between the co-owners of a property is governed by a document called a deed of mutual covenant (or an instrument of a similar nature), which is an agreement between the co-owners to regulate their respective rights and obligations as co-owners of the land and building(s) and to provide for the building’s effective maintenance and management (“DMC”). The Target Company, as the owner of the Kingswood Ginza Property and being a party to the DMCs in respect of the Kingswood Development, is bound by such DMCs as described in section 2 of Appendix 7 headed “Summary of Government Grant and Deeds of Mutual Covenant”.

Citybase Property Management Limited, an indirect wholly-owned subsidiary of Cheung Kong, is a party to the DMC in respect of Kingswood Ginza Phase 1 and Kingswood Ginza Phase 2 as the DMC manager thereof, and Prompton Property Management Limited, an indirect wholly-owned subsidiary of Cheung Kong, is a party to the DMCs in respect of the remaining parts of the Kingswood Development as the DMC manager thereof. Further details regarding the respective responsibilities of Citybase Property Management Limited and Prompton Property Management Limited are described in section 2 of Appendix 7 headed “Summary of Government Grant and Deeds of Mutual Covenant”. Upon Completion, Fortune REIT will also be a party to the DMCs in respect of the Kingswood Development through its acquisition and ownership of the Target Company.

8.5.2 Tenancy and Licence Agreements with the CKH Group and the HSBC Group

The Target Company has entered into various tenancy and licence agreements with members of the: (a) CKH Group; and (b) the HSBC Group in respect of the Kingswood Ginza Property, which will continue to subsist post-Completion. The Manager believes that such agreements were made on normal commercial terms and are not prejudicial to the interests of Fortune REIT and the Unitholders.

9. NEW CONTINUING CONNECTED PARTY TRANSACTIONS

As part of the Transaction, the Manager has applied to the SFC for a modification and extension of the Existing CKH/Manager CPT Waiver from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the New Continuing Connected Party Transactions. The Manager is seeking Unitholder's approval for the Waiver Modification and Extension, details of which are set out below in this section 9.

9.1 Connected Persons of Fortune REIT

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

9.1.1 CKH Group

For the purpose of the REIT Code, Cheung Kong is a Significant Holder (that is, a holder of 10% or more of the outstanding Units) of Fortune REIT, and is therefore a Connected Person of Fortune REIT under paragraph 8.1(d) of the REIT Code.

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

9.1.2 Manager Group

The Manager is a Connected Person of Fortune REIT under paragraph 8.1(a) of the REIT Code.

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

9.1.3 Trustee Connected Persons

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

9.2 Existing Waivers in respect of Chapter 8 of the REIT Code

9.2.1 Continuing Transactions with the CKH Group and/or the Manager Group

In 2012, the SFC granted a waiver (being the “Existing CKH/Manager CPT Waiver”), subject to certain terms and conditions, from strict compliance with the disclosure and unitholders’ approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions that are summarised in the Belvedere Square and Provident Square Circular (the “Existing Continuing Connected Party Transactions”). Such waiver is due to expire on 31 December 2014 (the “Existing CPT Waiver Expiry Date”).

9.2.2 Continuing Transactions with the Trustee Connected Persons

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

9.3 Reasons for Modification of the Existing CKH/Manager CPT Waiver

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

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

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

In accordance with its terms, the Existing CKH/Manager CPT Waiver may be extended beyond the Existing CPT Waiver Expiry Date, and/or the terms and conditions of the Existing CKH/Manager CPT Waiver may be modified from time to time, provided that the terms and conditions below are complied with:

- (i) the due approval of Independent Unitholders is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (ii) disclosure of details of the proposed extension and/or amendment (as the case may be) will be made by way of an announcement by the Manager of such proposal, and a circular and notice will be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and

LETTER TO THE UNITHOLDERS

- (iii) any extension of the period of the Existing CKH/Manager CPT Waiver shall, on each occasion of such extension, be for a period which will expire not later than the third full financial year-end date of Fortune REIT after the date on which the approval referred to in (i) above is obtained.

Accordingly, the Manager would like to take the opportunity of the EGM for the Independent Unitholders to approve modifications and extensions to the Existing CKH/Manager CPT Waiver (the "**Waiver Modification and Extension**" and the resulting modified and extended waiver being the "**Modified and Extended CPT Waiver**") so as to:

- (i) expand the scope of the Existing Continuing Connected Party Transactions to include transactions entered or to be entered into by the Target Company in respect of the Kingswood Ginza Property and the additional continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property (the "**Additional Continuing Connected Party Transactions**" and together with the Existing Continuing Connected Party Transactions, the "**New Continuing Connected Party Transactions**") as a result of the Completion of the Acquisition as described in section 9 headed "New Continuing Connected Party Transactions";
- (ii) set new annual monetary limits to accommodate the New Continuing Connected Party Transactions for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 (the "**Proposed Caps**") as described in section 9.5 headed "Proposed Caps" below. The Proposed Caps increase the previous caps set in 19 January 2012, to cover the New Continuing Connected Party Transactions relating to the Kingswood Ginza Property, as well as additional CKH/Manager Group Leases/Licences (as defined below) (beyond those contemplated when the previous caps were set) to be entered into; and
- (iii) extend the Existing CPT Waiver Expiry Date so that the three-year waiver duration can commence afresh as described in section 9.6 headed "Waiver Extension" below.

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

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

9.4 New Continuing Connected Party Transactions

The New Continuing Connected Party Transactions are connected party transactions entered into or to be entered into between the Fortune REIT Group on the one hand, and the CKH Group and/or the Manager Group (as the case may be) on the other hand. The two categories of the New Continuing Connected Party Transactions are as follows:

9.4.1 Revenue Transactions

(1) Leasing / Licencing Transactions

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

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

The scope of the CKH/Manager Group Leases/Licences in respect of the Kingswood Ginza Property is the same as the Kingswood CKH Interested Persons Tenancy and Licence Agreements, and details of such agreements are set out in Appendix 8 headed "Kingswood CKH Interested Persons Tenancy and Licence Agreements". Fortune REIT's latest Annual Report sets out the details of the CKH/Manager Group Leases/Licences in respect of the Existing Properties as at the date of the report.

9.4.2 Expenditure Transactions

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

(1) Property Management Transactions

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

Pursuant to a property management extension letter from the Property Manager to the Trustee and the Manager dated 11 August 2013, the Property Management Agreement has been extended for a further term of 5 years to 11 August 2018. As noted in section 2.4.11 headed "Deed of Ratification and Accession", the parties to the Property Management Agreement intend to extend the scope of the property management services so as to include the Kingswood Ginza Property pursuant to the Deed of Ratification and Accession.

LETTER TO THE UNITHOLDERS

Under the Property Management Agreement, the Property Manager is entitled to a fee of 3% per annum of the Gross Property Revenue for the provision of property and lease management services. In addition, the Property Manager is also entitled to commissions for the provision of marketing services, such commissions are derived at by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees paid. For further details regarding the Property Management Agreement, please refer to the section headed "Material and Other Agreements Relating to Fortune REIT Property Management Agreement" in the Introduction Listing Document.

(2) *Third Party Services*

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

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

(3) *Deeds of Mutual Covenant*

Each Property Company will, where applicable, be bound by the terms of the DMC applicable to the Property owned by it. The DMC binds the manager from time to time appointed under the DMC (the "DMC manager") and all the owners of a development and their successors-in-title, irrespective of whether they are original parties to the DMC. Some of the DMC managers in respect of the Properties held by Fortune REIT are members of the CKH Group. These include the DMC managers of Ma On Shan Plaza, Fortune Metropolis, Nob Hill Square, Centre de Laguna, Hampton Loft, Lido Avenue, Rhine Avenue, Belvedere Garden Phase 1 and the commercial units of Belvedere Garden Phase 3. Further, there may also be situations arising where one or more members of the CKH Group may own other parts of the development of which the Property owned by Fortune REIT forms part, and therefore technically the DMC constitutes a contract between them.

As noted in section 8.5.1 headed "Deed of Mutual Covenant in respect of the Kingswood Ginza Property", Citybase Property Management Limited, a member of the CKH Group, is a party to the DMC in respect of Kingswood Ginza Phase 1 and Kingswood Ginza Phase 2 as the DMC manager thereof, and Prompton Property Management Limited, a member of the CKH Group, is a party to the DMCs in respect of the remaining parts of the Kingswood Development as the DMC manager thereof. Upon Completion, Fortune REIT will also be a party to the DMCs in respect of the Kingswood Development through its acquisition and ownership of the Target Company.

LETTER TO THE UNITHOLDERS

9.5 Proposed Caps

In any relevant financial year, the annual value of the New Continuing Connected Party Transactions shall not exceed the respective annual monetary limits stated in the table below (being the “Proposed Caps”):

Categories of New Continuing Connected Party Transactions	Connected Person	Proposed annual monetary limits under the Waiver Modification and Extension		
		For the financial year ending 31 December 2013	For the financial year ending 31 December 2014	For the financial year ending 31 December 2015
		(HK\$'000)	(HK\$'000)	(HK\$'000)
I. Revenue				
Leasing/licencing transactions . . .	CKH Group	360,000	469,000	563,000
Leasing/licencing transactions . . .	Manager Group	13,200	15,200	15,200
II. Expenditure				
Property management arrangements, third party services and other operational transactions	CKH Group	155,000	229,000	276,000

(1) In respect of CKH Group Leases/Licences

The proposed annual caps for the year ending 31 December 2013 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition (i.e. including the CKH Group Leases/Licences that would arise in connection with the Acquisition).

The approximately 5% increase of the annual cap for the financial year ending 31 December 2013 from HK\$344 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$360 million and the approximately 9% increase of the annual cap for the financial year ending 31 December 2014 from HK\$430 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$469 million, is mainly due to the new CKH Group Leases/Licences of HK\$16 million and HK\$39 million for the financial year ending 31 December 2013 and 31 December 2014 respectively to be taken up at the Kingswood Ginza Property upon and after completion of the Acquisition. The proposed annual cap for the financial year ending 31 December 2015 of HK\$563 million (of which includes HK\$47 million of new CKH Group Leases/Licences in respect of the Kingswood Ginza Property), has been determined by applying a 20% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 20% increment factor has been applied after taking into account the change in rental or other market conditions, inflation and a 5% buffer for contingencies, for instance, the possible increase in the number of premises under the CKH Group Leases/Licences during the New CPT Waiver Period.

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

The Manager Group currently has one lease of premises at the portfolio of properties of Fortune REIT. However, it is possible that more leases/licences may be entered into at some time during the New CPT Waiver Period.

The proposed annual caps for the financial years ending 31 December 2013 and 31 December 2014 are the same as the existing annual caps under the Existing CKH/Manager CPT Waiver. The proposed annual caps for the financial year ending 31 December 2015 are equivalent to the annual cap of HK\$15.2 million for the financial year ending 31 December 2014.

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

The proposed annual caps for the financial year ending 31 December 2013 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition.

The approximately 14% increase of the annual cap for the financial year ending 31 December 2013 from HK\$136 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$155 million, and the financial year ending 31 December 2014 from HK\$183 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$229 million, is mainly taking into account the expected new operating expenses from the Kingswood Ginza Property of HK\$19 million and HK\$46 million for the financial years ending 31 December 2013 and 31 December 2014 respectively upon completion of the Acquisition.

The proposed annual caps for the financial year ending 31 December 2015 of HK\$276 million, of which include HK\$56 million of new operating expenses from the Kingswood Ginza Property has been determined by applying a 20% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures. The 20% increment factor has been applied after taking into account: (i) the general economic environment in Hong Kong including the inflation, possible increase in costs and wages, and specifically, the anticipated increase in management expenses; and (ii) the resulting anticipated increase in the property management fees and marketing service fees payable by Fortune REIT to the Property Manager, during the New CPT Waiver Period and 5% buffer for contingencies.

9.6 Waiver Extension

As noted above, the Existing CKH/Manager CPT Waiver will expire on 31 December 2014. It is proposed that Existing CPT Waiver Expiry Date be extended (the "**Waiver Extension**"), so that the waiver will apply for the three financial years ending 31 December 2015 (the "**New CPT Waiver Period**"). The Waiver Extension shall be effective from the Completion Date.

9.7 Waiver Conditions

The Manager undertakes that it will continue to comply with the waiver conditions of the Existing CKH/Manager CPT Waiver, subject to the proposed revisions to the annual monetary limits and waiver expiry date described above. The waiver conditions of the Modified and Extended CPT Waiver will be as follows:

9.7.1 The EGM Resolution having been approved by the Independent Unitholders and adopted as set out in the EGM Notice, without material amendments thereto and Completion.

9.7.2 The Modified and Extended CPT Waiver will supersede the Existing CKH/Manager Waiver and will commence as from the Completion Date and continues until 31 December 2015.

9.7.3 Modification or Extension

The Modified and Extended CPT Waiver may be extended beyond the New CPT Waiver Period, and/or the terms and conditions of the Modified and Extended CPT Waiver may be modified from time to time, provided that:

- (a) Independent Unitholders' approval — the due approval of Unitholders other than those who have a material interest in the relevant transactions, within the meaning of 8.11 of the REIT Code (being the "**Independent Unitholders**") is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (b) Disclosure — disclosure of details of the proposed extension and/or amendment (as the case may be) will be made by way of an announcement by the Manager of such proposal, and a circular and notice will be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Extension period — any extension of the period of the Modified and Extended CPT Waiver shall, on each occasion of such extension, be for a period which will expire not later than the third full financial year-end date of Fortune REIT after the date on which the approval referred to in (a) is obtained.

For the avoidance of doubt, any material change to the transactions covered under the Modified and Extended CPT Waiver (including without limitation the scope or nature of the transactions) in the application for Waiver Modification and Extension dated 28 August 2013 provided by the Manager based on which the waiver is sought and granted must be approved by the Independent Unitholders as referred to in (a) above and details of the proposed changes shall be disclosed in the manner as referred to in (b) above.

9.7.4 Annual caps

In any relevant financial year, the annual value of the New Continuing Connected Party Transactions shall not exceed the respective annual monetary limits stated in section 9.5 headed "Proposed Caps".

LETTER TO THE UNITHOLDERS

In respect of leasing/licencing transactions, an independent valuation will be conducted for each of such leasing/licencing transactions except where they are conducted on standard or published rates.

9.7.5 Disclosure in Interim and Annual Reports

Details of the New Continuing Connected Party Transactions shall be disclosed in Fortune REIT's interim and annual reports, as required under paragraph 8.14 of the REIT Code.

9.7.6 Auditors' Review Procedures

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

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

9.7.7 Review by the Independent Non-Executive Directors of the Manager

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

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

9.7.8 Auditors' Access to Books and Records

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

9.7.9 Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in sections 9.7.6 and 9.7.7 respectively.

9.7.10 Subsequent Increases in Annual Caps with Independent Unitholders' Approval

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

- (a) Independent Unitholders' approval – the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) Disclosure – disclosure of details of the proposal to increase the relevant annual cap amounts shall be made by way of an announcement by the Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Other compliance requirements – all the waiver terms and conditions above shall continue to apply to the relevant transactions, save that the relevant increased annual cap amounts will apply.

9.8 Paragraph 8.14 of the REIT Code

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

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

LETTER TO THE UNITHOLDERS

9.9 Opinion of the Board

The Board (including all the independent non-executive Directors) confirms that for purposes of the REIT Code:

- (1) in its opinion, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole;
- (2) in its opinion, each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition):
 - (i) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT;
 - (ii) has been entered into at arm's length and on normal commercial terms; and
 - (iii) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (3) in its opinion, that each of the New Continuing Connected Party Transactions to be entered into after the Latest Practicable Date shall be: (i) in the ordinary and usual course of business of Fortune REIT and consistent with the investment objectives and strategy of Fortune REIT; and (ii) at arm's length and on normal commercial terms and are fair and reasonable and in the interests of the Independent Unitholders, as well as the Unitholders as a whole.

9.10 Opinion of the Independent Financial Advisers

The Independent Financial Advisers have confirmed that they are of the view that for purposes of the REIT Code:

- (1) the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (2) each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition): (i) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (ii) has been entered into at arm's length and on normal commercial terms; and (iii) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

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

9.11 Opinion of the Independent Property Valuers

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

As disclosed in the Belvedere Square and Provident Square Circular, Knight Frank Petty Limited, Fortune REIT's then principal valuer, confirmed that the rentals of the then subject lettings in respect of the Belvedere Garden Property and the Provident Centre Property (each term as defined in the Belvedere Square and Provident Square Circular), which form part of the Existing Continuing Connected Party Transactions, were at or above market levels as of their respective tenancy agreement dates and other commercial terms in the tenancies such as tenure, rental deposits and break clauses are on normal commercial terms.

Also, as disclosed in the Introduction Listing Document, Savills, Fortune REIT's then principal valuer, confirmed that the rental/licence fees in respect of the then CKH Group Leases/Licences and the then Manager Group Leases/Licences of the Existing Properties (other than the Belvedere Garden Property and the Provident Centre Property (each term as defined in the Belvedere Square and Provident Square Circular) which were not held by Fortune REIT at the time), which form part of the Existing Continuing Connected Party Transactions, were at market levels as at their respective agreement dates, and that the other commercial terms in the lease or licences such as tenure, rental deposits and break clauses were on normal commercial terms.

In accordance with the Existing CKH/Manager CPT Waiver, Fortune REIT also obtained an independent valuation from the incumbent principal valuer being Knight Frank Petty Limited or Savills for other subject lettings in respect of the Existing Properties entered into after the Introduction Listing Document (with the exception of subject lettings entered into on standard rates, which did not require such confirmation under the terms and conditions of the Existing CKH/Manager CPT Waiver).

10. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED

10.1 Connected Party Transactions

Clause 16.2.1 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including conditions of any waiver or exemption from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under paragraph 8.1 of the REIT Code, Connected Persons of Fortune REIT include, among others, a Significant Holder (that is, a holder of 10% or more of the outstanding Units) and associated companies. Cheung Kong owns more than 10% of the Units and therefore is a Significant Holder of Fortune REIT. The Vendor is an associated company (as defined in the REIT Code) of Cheung Kong and therefore, is a Connected Person of Fortune REIT within the meaning of the REIT Code. Accordingly, each of the following constitutes a connected party transaction of Fortune REIT under paragraph 8.5 of the REIT Code:

- (1) the entering into and performance of the Share Purchase Agreement;
- (2) the entering into and performance of the Deed of Shareholder Loan Assignment;

LETTER TO THE UNITHOLDERS

- (3) the entering into and performance of the Deed of Tax Covenant; and
- (4) the entering into and performance of the Deed of Ratification and Accession.

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

10.2 Major Acquisition

In addition, as the Consideration represents approximately 49.1% of the total market capitalisation of Fortune REIT, based on the average closing price of Fortune REIT on the Hong Kong Stock Exchange for the five trading days immediately preceding the Latest Practicable Date, the Transaction also constitutes a major acquisition by Fortune REIT under the relevant Hong Kong rules and regulations.

10.3 New Continuing Connected Party Transactions

The Board proposes to seek Independent Unitholders' approval for the Waiver Modification and Extension, which will accommodate the increase in size and the number of varieties of the continuing connected party transactions of Fortune REIT following Completion.

Please refer to section 9 headed "New Continuing Connected Party Transactions" for further details regarding the Waiver Modification and Extension. Details of the relevant connected party transactions will be disclosed in Fortune REIT's semi-annual and annual reports, as required under paragraph 8.14 of the REIT Code.

10.4 Ordinary Resolution

The Manager takes the view that: (i) the Transaction and the assumption of the Kingswood CKH Interested Persons Tenancy and Licence Agreements; and (ii) the Waiver Modification and Extension are linked to each other and part and parcel of a significant proposal, as the Waiver Modification and Extension only arises from the consummation of the Transaction and will not be required but for the entering into of the agreements underlying the Transaction.

Please refer to the EGM Notice for the proposed EGM Resolution in relation to the Transaction Matters Requiring Approval. As soon as practicable after the EGM, the Manager will issue an announcement setting out the results of the EGM, including whether the proposed EGM Resolution has been passed.

10.5 Restrictions on Voting

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

LETTER TO THE UNITHOLDERS

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

Members of the CKH Group and the Manager Group are parties to one or more of the Transactions, the Kingswood CKH Interested Persons Tenancy and Licence Agreements and the New Continuing Connected Party Transactions, and as such, have a material interest in each of the EGM Resolution.

Pursuant to the REIT Code and the Trust Deed:

- (a) Cheung Kong has agreed to abstain, and will procure that each member of the CKH Group and its associates will abstain, from voting on the EGM Resolution; and
- (b) ARA (being the holding company of the Manager) has agreed to abstain, and will procure that each member of the Manager Group and its associates will abstain, from voting on the EGM Resolution.

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

10.6 Trustee has Discretion

Given the Acquisition is dependent on the satisfaction of the Conditions, for the avoidance of doubt, Unitholders should note that the Trustee has the discretion, after consultation with and taking instructions from the Manager, to not proceed with the Acquisition if any of the Conditions shall not have been fulfilled prior to the Long Stop Date.

10.7 Waiver applications and submissions made to the SFC

10.7.1 Waiver application in respect of Chapter 8 of the REIT Code in relation to the New Continuing Connected Party Transactions

The Manager applied to the SFC for a modification and extension of the Existing CKH/Manager CPT Waiver from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the New Continuing Connected Party Transactions, subject to Completion taking place, and subject to various terms and conditions under the waiver. For further details regarding the Waiver Modification and Extension, please refer to section 9.3 headed "Reasons for Modification of the Existing CKH/Manager CPT Waiver".

10.7.2 Submission in respect of "majority ownership and control"

Based on the relevant DMC (as summarised in section 2 of Appendix 7 headed "Summary of Government Grant and Deeds of Mutual Covenant"), the Acquisition will involve: (a) the entire commercial development in the Kingswood Ginza Mall; (b) 98.7% of the car parking spaces in the Kingswood Ginza Mall; (c) all the kindergartens and kindergarten car parking spaces and kindergarten loading bays in the Kingswood

LETTER TO THE UNITHOLDERS

Development; (d) 3.9% of the commercial portion of the Locwood Court development within "Kingswood Villas" (which in turn forms part of the Kingswood Development) and 40% of the external wall in respect of the same (being the "Subject Area"); and (e) all reserve shares in Locwood Court Development and common areas in the Kingswood Development.

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

- (a) manage and maintain the Kingswood Ginza Property (other than the Subject Area);
- (b) exercise the day-to-day management and operation of the Kingswood Ginza Property (other than the Subject Area), separate from other parts of the Kingswood Development and free from interference, control or restriction from other parties;
- (c) independently carry out asset enhancement work to the Kingswood Ginza Property (other than the Subject Area); and
- (d) exercise all rights as owner over the Kingswood Ginza Property (other than the Subject Area), for example, to sell, mortgage, occupy and lease out the units comprised therein without reference to or interference from other owners of the Kingswood Development.

Based on the foregoing, the Manager has submitted that upon Completion, Fortune REIT will have "majority ownership and control" of the Kingswood Ginza Property (other than the Subject Area) under paragraph 7.7A of the REIT Code (having regard to the additional guidance contained in the FAQs), and thereby meets such requirement.

In respect of the Subject Area, Fortune REIT will not have "majority ownership and control" under paragraph 7.7A of the REIT Code as applied by the SFC. Notwithstanding this, the Manager has submitted that Fortune REIT should be allowed to acquire the Subject Area for the following reasons: (a) Fortune REIT will own the entirety of the Subject Area and have: (i) full operational control over the Subject Area; (ii) the ability to independently enhance the Subject Area; and (iii) the ability to exercise all rights as owner over the Subject Area; (b) investment in the Subject Area (which consists of retail space and corresponding car parks) is in line with the investment strategy and objectives of Fortune REIT to capitalise on opportunities in the Hong Kong commercial and retail shopping mall sectors, and in the best interests of Fortune REIT and the Unitholders; and (c) the net asset value of the Subject Area (together with the value of similarly non-conforming areas within the Existing Properties) represents approximately 3.2% of the NAV of Fortune REIT (as enlarged after the Acquisition), and therefore falls within the allowance for investment in properties in respect of which Fortune REIT does not have majority ownership and control allowed by the SFC.

11. IMPLICATIONS UNDER THE SINGAPORE LISTING MANUAL AND THE SINGAPORE PROPERTY FUNDS APPENDIX

11.1 Interested Person Transaction under Chapter 9 of the Singapore Listing Manual

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

The Vendor is 100% held by the CKH Group. As at the Latest Practicable Date, Cheung Kong was deemed to hold an aggregate indirect interest in 525,630,684 Units, which is equivalent to approximately 28.4% of the total number of Units then in issue, and is therefore regarded as a "controlling unitholder" (as defined in the Singapore Listing Manual) of Fortune REIT. As the Vendor is an associate (as defined in the Singapore Listing Manual) of Cheung Kong, it is therefore considered to be an Interested Person of Fortune REIT.

Based on the audited consolidated financial statements of Fortune REIT for the six months ended 30 June 2013, the audited NAV/NTA was HK\$17,058.5 million as at 30 June 2013. Accordingly, if the value of a transaction which is proposed to be entered into by Fortune REIT with an Interested Person is, in the current financial year, either in itself or in aggregation with all other earlier transactions (each of a value equal to or greater than S\$100,000 or HK\$635,200 based on the exchange rate of S\$1 = HK\$6.3520 as at 3 January 2013) entered into with the same Interested Person during the current financial year, equal to or in excess of HK\$852.9 million, such a transaction would have to be subject to Independent Unitholders' approval. Given the Consideration of HK\$5,849 million (subject to the Current Adjustment) (which comprises 34.3% of the audited NAV/NTA of Fortune REIT as at 30 June 2013), the aggregate value of the Acquisition exceeds the said audited threshold.

As such, the Acquisition (together with the entering into of the various agreements and instruments described in section 10.1 headed "Connected Party Transactions") is subject to Independent Unitholders' approval under Chapter 9 of the Singapore Listing Manual.

11.2 Interested Party Transaction under Paragraph 5 of the Singapore Property Funds Appendix

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

The Vendor is 100% held by the CKH Group. As at the Latest Practicable Date, Cheung Kong was deemed to hold an aggregate indirect interest in 525,630,684 Units, which is equivalent to approximately 28.4% of the total number of Units then in issue, and is therefore regarded as a "controlling unitholder" (as defined in the Singapore Property Funds Appendix) of Fortune REIT. As the Vendor is an associate (as defined in the Singapore Property Funds Appendix) of Cheung Kong, it is therefore considered to be an Interested Party of Fortune REIT.

LETTER TO THE UNITHOLDERS

Based on the audited consolidated financial statements of Fortune REIT for the six months ended 30 June 2013, the audited NAV of Fortune REIT was HK\$17,058.5 million as at 30 June 2013. Accordingly, if the value of a transaction which is proposed to be entered into by Fortune REIT with an Interested Party (aggregated with all other transactions with the same Interested Party during the current financial year) is equal to or in excess of HK\$852.9 million, such a transaction would be subject to Independent Unitholders' approval. Given the Consideration of HK\$5,849 million (subject to the Current Adjustment) (which comprises 34.3% of the NAV of Fortune REIT as at 30 June 2013), the aggregate value of the Acquisition exceeds the said audited threshold.

As such, the Acquisition (together with the entering into of the various agreements and instruments described in section 10.1 headed "Connected Party Transactions") is also subject to Independent Unitholders' approval under Paragraph 5 of the Singapore Property Funds Appendix.

11.3 Kingswood CKH Interested Persons Tenancy and Licence Agreements

The Target Company has entered into various leases or licences with members of the CKH Group in respect of the Kingswood Ginza Property which will continue to subsist post-Completion ("**Kingswood CKH Interested Persons Tenancy and Licence Agreements**", as detailed in Appendix 8 headed "Kingswood CKH Interested Persons Tenancy and Licence Agreements").

11.4 Existing Interested Person Transactions

As at the Latest Practicable Date, Fortune REIT had entered into several Interested Person Transactions/Interested Party Transactions with certain entities within the CKH Group during the course of the current financial year. The aggregate value of the existing Interested Person Transactions/Interested Party Transactions (each of a value equal to or greater than S\$100,000 (equivalent to approximately HK\$635,200) based on the exchange rate of S\$1 = HK\$6.352 as at 3 January 2013) amounts to HK\$488.2 million (which comprises 2.9% of the audited NAV/NTA of Fortune REIT as at 30 June 2013). The existing Interested Person Transactions/Interested Party Transactions will be aggregated with the Transaction for the purpose of computing the threshold under Rule 906 of the Singapore Listing Manual and paragraph 5.2 of the Singapore Property Funds Appendix respectively.

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

11.5 Approval by Unitholders

In approving the Transaction, Independent Unitholders are deemed to have approved the Existing Interested Person Transactions (as detailed in Appendix 6 headed "Existing Interested Person Transactions") and the other transactions contemplated under, associated with and/or related to the Transaction, including the assumption of the Kingswood CKH Interested Persons Tenancy and Licence Agreements (as detailed in Appendix 8 headed "Kingswood CKH Interested Persons Tenancy and Licence Agreements") and the Deed of Ratification and Accession, pursuant to which the Kingswood Ginza Property will be included as part of the properties to be managed by the Property Manager, upon Completion. These transactions and agreements are, therefore, not subject to Rules 905 and 906 of the Singapore Listing Manual (which require Fortune REIT to make an announcement or obtain the approval of Independent Unitholders depending on the materiality of the Interested Person Transactions) insofar as there are no subsequent changes to the rental,

LETTER TO THE UNITHOLDERS

rates and/or basis of the fees charged thereunder which will adversely affect Fortune REIT. Future renewal or extension of the agreements will be subject to Rules 905 and 906 of the Singapore Listing Manual.

11.6 Restrictions on Voting

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

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

Members of the CKH Group and the Manager Group are parties to one or more of the Transaction, the Kingswood CKH Interested Tenancy and Licence Agreements and the New Continuing Connected Party Transactions, and as such, have a material interest in each of the EGM Resolution.

Given that Cheung Kong is a Controlling Unitholder and ARA is the holding company of the Manager:

- (a) Cheung Kong has agreed to abstain, and will procure that each member of the CKH Group and its associates will abstain, from voting on the EGM Resolution; and
- (b) ARA has agreed to abstain, and will procure that each member of the Manager Group and its associates will abstain, from voting on the EGM Resolution.

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

11.7 Relative Figures Computed on the Basis set out in Rule 1006

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

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

Comparison of:	Kingswood Ginza Property	Fortune REIT	Relative Figure (%)
Profits (HK\$ million)	210.2 ⁽¹⁾	788.3 ⁽²⁾	26.7
Consideration against market capitalisation (HK\$ million)	5,849.0	12,157.8 ⁽³⁾	48.1

LETTER TO THE UNITHOLDERS

Notes:

- (1) Based on Net Property Income for the financial year ended 31 December 2012 of the Target Company.
- (2) Based on Net Property Income for the financial year ended 31 December 2012 of Fortune REIT.
- (3) Based on the closing price of the Units of HK\$6.58 in the SGX-ST for the market day immediately preceding the Latest Practicable Date.

The Manager is of the view that the Acquisition is in the ordinary course of Fortune REIT's business as it falls within Fortune REIT's investment policy. Therefore, Independent Unitholders' approval for purposes of Chapter 10 of the Singapore Listing Manual is not required for the Acquisition. In any case, as the Acquisition and other related transactions as set out in the foregoing paragraphs of this section 11 constitute interested person and/or interested party transactions under the Singapore Listing Manual and/or the Singapore Property Funds Appendix, Independent Unitholders' approval will still be sought for the Acquisition and other related transactions as set out in the foregoing paragraphs of this section 11.

12. RECOMMENDATIONS

12.1 Directors

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

- (a) (i) the Transaction is on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual; and (ii) the Transaction, which consists of the terms of the Acquisition, including the Consideration, is in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT, has been entered into at arm's length and on normal commercial terms, is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole in accordance with the REIT Code; and
- (b) for the purpose of the REIT Code, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition): (i) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (ii) has been entered into at arm's length and on normal commercial terms; and (iii) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole,

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

12.2 Independent Board Committee and Audit Committee

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

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

The Independent Board Committee and the Audit Committee, having taken into account the opinion of the Independent Financial Advisers and the principal factors and reasons considered by them, concur with the opinion of the Independent Financial Advisers and recommend that the Independent Unitholders vote at the EGM in favour of the EGM Resolution.

12.3 Independent Financial Advisers

Kim Eng Securities (Hong Kong) Limited (the “**HK Independent Financial Adviser**”) has been appointed as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code, and Maybank Kim Eng Securities Pte Ltd (the “**Singapore Independent Financial Adviser**”) has been appointed as the independent financial adviser for the purposes of Chapter 9 of the Singapore Listing Manual, to advise the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee (as appropriate) on whether the Transaction Matters Requiring Approval are fair and reasonable. In this regard, the Independent Financial Advisers consider that:

- (1) (i) the Transaction is on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual; and (ii) the Transaction, which consists of the terms of the Acquisition, including the Consideration, is in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT, has been entered into at arm’s length and on normal commercial terms, is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole in accordance with the REIT Code; and
- (2) for the purpose of the REIT Code, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition): (i) has

LETTER TO THE UNITHOLDERS

been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (ii) has been entered into at arm's length and on normal commercial terms; and (iii) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole,

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

Further, the Independent Financial Advisers are of the opinion that the Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements are on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual.

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

12.4 Trustee

The Independent Financial Advisers have been appointed to advise the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee as to whether the Transaction Matters Requiring Approval are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Advisers" in this Circular. Savills has been appointed by the Manager and JLL has been appointed by the Trustee to value the Kingswood Ginza Property and to confirm that the tenancies of the Kingswood Ginza Property are on normal commercial terms. Their opinions are set out in Appendix 4 headed "Independent Property Valuers' Property Valuation Reports". Further, the Independent Board Committee and the Audit Committee have been appointed to advise in respect of the Transaction Matters Requiring Approval and their advice is set out in the "Letter from the Independent Board Committee and the Audit Committee" in this Circular.

Based and in sole reliance on: (1) the opinion of the Board in this letter and the information and assurances provided by the Manager; (2) the Letter from the Independent Financial Advisers; (3) the Letter from the Independent Board Committee and the Audit Committee; and (4) the Independent Property Valuers' Valuation Reports, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code: (a) is of the view that the Transaction Matters Requiring Approval are fair and reasonable so far as the Independent Unitholders are concerned, as well as the Unitholders as a whole; (b) is of the view that the Transaction Matters Requiring Approval are consistent with Fortune REIT's established investment objectives and strategy; and (c) has no objection to the Manager proceeding with the Transaction Matters Requiring Approval, subject to the approval of the Independent Unitholders.

The Trustee has not made any assessment of the merits or impact of the Transaction Matters Requiring Approval, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Independent Unitholders, including those who are in any doubt as to the merits or impact of the Transaction Matters Requiring Approval, to seek their own financial or other professional advice.

13. RESPONSIBILITY STATEMENTS OF THE MANAGER AND THE DIRECTORS

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

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

14. RESPONSIBILITY STATEMENTS OF THE JOINT LEAD MANAGERS AND UNDERWRITERS

To the best of the knowledge and belief of the Joint Lead Managers and Underwriters, the information about the Unit Placement contained in section 4.3 headed "Unit Placement" constitutes full and true disclosure of all material facts about the Unit Placement, and the Joint Lead Managers and Underwriters are not aware of any facts the omission of which would make any statement about the Unit Placement in the aforesaid section 4.3 misleading.

15. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

The EGM will be held at 11:00 a.m. on 16 September 2013 at Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong, for the purpose of considering and, if thought fit, passing with or without amendments, the Ordinary Resolution set out in the EGM Notice, which is set out on pages N-1 to N-3 of this Circular. Any Unitholder or depositor or proxy who wishes to take part in the EGM from Singapore, may attend via video conference which shall be held at Room 326, Level 3 Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593.

The Register of Unitholders will be closed from Thursday, 12 September 2013 to Monday, 16 September 2013 (both days inclusive), during which no transfer of Units will be effected, to determine which Unitholders will qualify to attend and vote at the EGM. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all duly completed transfers of Units accompanied by the relevant Unit certificates must be lodged with the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders) for registration by 5:00 p.m. on 11 September 2013, or with the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) for registration by 4:30 p.m. on 11 September 2013.

LETTER TO THE UNITHOLDERS

You can vote at the EGM if you are a Unitholder at the close of business on 11 September 2013, which is referred to in this Circular as the EGM Record Date. You will find enclosed with this Circular the EGM Notice (please refer to pages N-1 to N-3 of this Circular) and a form of proxy for use for the EGM.

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

16. ADDITIONAL INFORMATION

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

Yours faithfully,

By Order of the Board
ARA ASSET MANAGEMENT (FORTUNE) LIMITED
(as Manager of Fortune Real Estate Investment Trust)

ANG Meng Huat, Anthony
Executive Director and Chief Executive Officer

FORTUNE
置富產業信託 **REIT**

Fortune Real Estate Investment Trust

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

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

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

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

28 August 2013

To: The Independent Unitholders of Fortune REIT

Dear Sir or Madam,

**(1) MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO
THE PROPOSED ACQUISITION OF THE KINGSWOOD GINZA PROPERTY,
CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS; AND**

(2) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

We have been appointed as members of the Independent Board Committee and the Audit Committee to advise you in respect of, among other things, the Transaction Matters Requiring Approval, details of which are set out in the “**Letter to the Unitholders**” in the circular dated 28 August 2013 from the Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE AND THE AUDIT COMMITTEE

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

- (a) (i) the Transaction is on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual and (ii) the Transaction, which consists of the terms of the Acquisition, including the Consideration, is in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT, has been entered into at arm's length and on normal commercial terms, is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole in accordance with the REIT Code; and
- (b) for purposes of the REIT Code, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition): (i) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (ii) has been entered into at arm's length and on normal commercial terms; and (iii) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

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

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

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

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

LAN Hong Tsung, David
Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS



Maybank Kim Eng Securities Pte Ltd
(Incorporated in Singapore)
50 North Canal Road
Singapore 059304

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



Kim Eng Securities (Hong Kong) Limited
(Incorporated in Hong Kong)
Level 30 Three Pacific Place
1 Queen's Road East
Hong Kong

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

28 August 2013

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

HSBC Institutional Trust Services (Singapore) Limited
(as the Trustee of Fortune REIT)
21 Collyer Quay
#10-02 HSBC Building
Singapore 049320

The Independent Unitholders of Fortune REIT

Dear Sir or Madam,

**MAJOR ACQUISITION AND CONNECTED PARTY TRANSACTIONS RELATING TO
THE PROPOSED ACQUISITION OF THE KINGSWOOD GINZA PROPERTY,
CONTINUING CONNECTED PARTY TRANSACTIONS AND RELATED MATTERS**

INTRODUCTION

We refer to our appointment, Maybank Kim Eng Securities Pte Ltd (the "**SG Independent Financial Adviser**") for the purposes of Chapter 9 of the Singapore Listing Manual and Kim Eng Securities (Hong Kong) Limited (the "**HK Independent Financial Adviser**") for the purposes of paragraph 10.10(p) of the REIT Code, as the independent financial advisers to the Independent Board Committee, the Audit Committee, Independent Unitholders and the Trustee (as appropriate) in respect of whether:

- (i) (a) the Transaction is on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual; and (b) the Transaction, which consists of the terms of the Acquisition, including the Consideration, is in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT, has been entered into at arm's length and on normal commercial terms, is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole in accordance with the REIT Code;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

- (ii) for the purpose of the Singapore Listing Manual, the Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements are on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders; and
- (iii) for the purpose of the REIT Code, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition), (a) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (b) has been entered into at arm's length and on normal commercial terms; and (c) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

Details of the Transaction Matters Requiring Approval are set out in the letter to the Unitholders (the "**Letter to the Unitholders**") contained in the circular of Fortune REIT dated 28 August 2013 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings used in this letter unless the context requires otherwise.

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

On 28 August 2013, the Trustee, the Guarantor (or Cheung Kong) and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan. Upon Completion, Fortune REIT will (through the Target Company) hold the Kingswood Ginza Property. As set out in the Letter to the Unitholders, at Completion, the Target Company shall not have any operations or business other than the ownership of the Kingswood Ginza Property. The purchase consideration for the Target Company Shares pursuant to the Share Purchase Agreement is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to the Current Adjustment. According to the Letter to the Unitholders, the Consideration shall be applied: (i) firstly, as payment on a dollar-for-dollar basis for the assignment to the Trustee (or the Nominee) of the Shareholder Loan; and (ii) thereafter, as payment for the transfer of the Target Company Shares.

As at the Latest Practicable Date, Cheung Kong was deemed to hold an aggregate indirect interest in 525,630,684 Units, which is equivalent to approximately 28.4% of the total number of Units then in issue, and is therefore regarded as a "Significant Holder" (as defined in the REIT Code) and a "controlling unitholder" (as defined in the Singapore

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Listing Manual and the Singapore Property Funds Appendix) of Fortune REIT. As the Vendor is an "associated company" (as defined in the REIT Code) and an "associate" (as defined in the Singapore Listing Manual and the Singapore Property Funds Appendix) of Cheung Kong, the Vendor is (i) a Connected Person; (ii) an Interested Person; and (iii) an Interested Party (each as defined in the Circular), and accordingly the Acquisition and consummation of the transactions contemplated under, associated with and/or related to the Share Purchase Agreement constitute: (a) connected party transactions of Fortune REIT under paragraph 8.5 of the REIT Code; (b) Interested Person Transactions of Fortune REIT under Chapter 9 of the Singapore Listing Manual; and (c) Interested Party Transactions under paragraph 5 of Appendix 6 of the Singapore Property Funds Appendix, and are thus subject to the passing of the EGM Resolution by Independent Unitholders.

Since 2003, the Manager has appointed the Property Manager to manage, supervise, maintain and market the Fortune REIT's real estate assets. The parties to the Share Purchase Agreement intend to extend the scope of the property management services so as to include the Kingswood Ginza Property pursuant to the Deed of Ratification and Accession.

In 2012, the SFC granted the Existing CKH/Manager CPT Waiver, subject to certain terms and conditions, from strict compliance with the disclosure and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions. The Existing CKH/ Manager CPT Waiver is due to expire on 31 December 2014. In respect of the resulting continuing transactions with CKH Group in respect of Kingswood Ginza Property upon Completion, the nature of such transactions will be the same as the Existing Continuing Connected Party Transactions in respect of which the Existing CKH/Manager CPT Waiver was granted. The Acquisition will accordingly increase the scale of the continuing connected party transactions with the CKH Group. It is proposed that Existing CPT Waiver Expiry Date be extended, so that the waiver will be applicable to the three financial years ending 31 December 2015.

To prepare for the future transactions with CKH Group and/or the Manager Group subsequent to the Completion, the Manager applied to the SFC for a modification and extension of the Existing CKH/Manager CPT Waiver from strict compliance with the disclosure and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the New Continuing Connected Party Transactions, subject to Completion taking place, and subject to various terms conditions under the waiver.

The Independent Board Committee, which comprises all three of the independent non-executive Directors of the Manager, namely Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David, has been established by the Board to advise the Independent Unitholders on the Transaction Matters Requiring Approval.

As at the Latest Practicable Date, IFAs and their holding company, controlling shareholder, fellow subsidiaries and associates (collectively "**Maybank Group**") (i) provided certain banking facilities to certain group companies of Cheung Kong and (ii) held certain bonds issued by Hutchison Whampoa International Limited, which in aggregate represent approximately 0.04% of the total asset of Maybank Group as at 31 December 2012. We do not consider the banking facilities and these interests would affect the objectivity of our advice, given the fact that (i) the respective interests so held by Maybank Group are immaterial; and (ii) the banking facilities provided by Maybank Group to them are immaterial to Maybank Group's total assets and are under normal banking relationships. We consider ourselves suitable to give independent financial advice to the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee (as appropriate) in respect of the Transaction Matters Requiring Approval.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

TERMS OF REFERENCE

We were not and are not a party to any negotiation in relation to the Transaction Matters Requiring Approval. We were also not and are not involved in the deliberations leading up to the decision by the Manager to undertake the Transaction Matters Requiring Approval.

Our terms of engagement do not require us to conduct, and we have not conducted, any review of the business plan, operations, financial performance, financial condition and/or future prospects of Fortune REIT, the Trustee or the Manager. Our terms of engagement also do not require us to evaluate, comment, warrant or make any representation whatsoever on the merits and/or risks, whether commercial, strategic, financial or otherwise of the Transaction Matters Requiring Approval. Such evaluations or comments remain the sole responsibility of the Directors, the Manager and their advisers, 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.

We have also not made any evaluation or appraisal of the assets (including the property portfolio) and liabilities of Fortune REIT, the Trustee or the Manager and we have not been furnished any such evaluation and appraisal, except for the Independent Property Valuers' Property Valuation Reports as set out in Appendix 4 to the Circular. Whilst we have discussed the valuation methodologies and basis and assumptions for the valuation of Kingswood Ginza Property with the Independent Property Valuers, we are not and do not purport to be property experts. In respect of the Independent Property Valuers' Property Valuation Reports, we have placed reliance thereon for the asset appraisals contained therein. We are not experts in the evaluation or appraisal of properties and we have not made any independent verification of the matters or bases set out in the Independent Property Valuers' Property Valuation Reports. We are also not requested or authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the Transaction Matters Requiring Approval. We are therefore not addressing the relative merits or risks of the Transaction Matters Requiring Approval as compared to any alternative acquisition that were or may have been or may be available to the Fortune REIT in the future. We are also not required to and have not obtained any quotations or transaction prices from any third parties in respect of the matters which are the subject of the Transaction Matters Requiring Approval. We have not conducted any audit or special review of the connected party transactions under the Existing CKH/Manager CPT Waiver (including the Existing Continuing Connected Party Transactions), Additional Continuing Connected Party Transactions, Kingswood CKH Interested Persons Tenancy and Licence Agreements and Existing Interested Person Transactions and we do not warrant or make any representation as to the actual implementation of Fortune REIT's review and control procedures relating to such connected party transactions.

We have relied upon the assurances of the Directors who have accepted full responsibility for the accuracy and completeness of the information provided to us. The Directors have confirmed to us that to the best of their information, knowledge and belief having made reasonable enquiries, all material information and facts necessary for the purposes of IFAs to carry out the work have been provided. We have no reason to believe that any material information has been withheld, or to doubt the truth or accuracy or completeness of the information provided.

The Directors (including those who may have delegated supervision of the Circular) have confirmed that they have taken all reasonable care to ensure that the facts stated and opinions expressed in the Circular (except the IFAs' opinion in this letter) are fair and accurate in all material respects and that no material facts have been omitted which would

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

make any statement in the Circular misleading in any respect, and that they collectively and individually accept responsibility accordingly. However, in respect of this letter and the information provided to us in relation thereto, the responsibility of the Directors has been to ensure that the facts stated with respect to Fortune REIT, the Trustee, the Manager and the Transaction Matters Requiring Approval, are, to the best of their knowledge and belief, fair and accurate in all material respects and that representations and opinions expressed in the information given have been provided after due and careful consideration.

We have considered, among others, the information prepared by the Manager in relation to the Transaction Matters Requiring Approval and the source of other information used in this letter.

We have also assumed that all statements of intention of the management or the Directors, as set forth in the Circular, will be implemented and that all of the expectations of the Directors can be met. We have also relied on the information provided and representations made by the Directors and management of the Manager and certain information available to the public (such as the relevant published documents of Fortune REIT) and we assume such information to be accurate and reliable. We consider that we have received and reviewed sufficient information to enable us to provide a reasonable basis of our advice. We have not carried out any independent verification of such information, or conducted an independent investigation into the business and affairs of the Fortune REIT or the Manager Group, or its underlying assets, or conducted any valuation or appraisal of any assets or liabilities, or conducted any form of investigation into the commercial viability of the future prospects, earning potential or value of the Fortune REIT or the Manager Group or of its underlying assets or of the financial conditions, future prospects of any other parties, 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. We do not express any view as to the price at which the Units may trade upon completion of the Transaction nor on the future value, financial performance or condition of Fortune REIT after the Transaction.

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

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

Our opinion is necessarily based upon the market, economic and other conditions as they existed and could be evaluated on, and the information publicly available to us as of the Latest Practicable Date. We have no obligation to update this opinion to take into account events occurring after this opinion is delivered to the Independent Board Committee, the Audit Committee, the Trustee and the Independent Unitholders (as appropriate). It should be understood that subsequent developments or changes could occur that, if known at the time we rendered our opinion, would have affected or altered our opinion. We assume no responsibility or liability under such circumstances. Unitholders

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

should take note of any announcements relevant to their considerations of the Transaction Matters Requiring Approval which may be released by the Manager and other sources after the Latest Practicable Date.

This letter and our opinions are addressed to the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee (as appropriate) in relation to the Transaction Matters Requiring Approval and while a copy of this letter may be reproduced in the Circular, none of the Manager, the Trustee nor any of their respective directors or representatives may reproduce, disseminate or refer to this letter or any part thereof for any other purposes at any time and in any manner without prior written notification to IFAs in each specific case. The recommendations made to the Independent Unitholders in relation to the Transaction Matters Requiring Approval remain the responsibility of the Independent Board Committee and Audit Committee. Our opinion in respect of the Transaction Matters Requiring Approval should be considered in the context of the entirety of this letter and the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our view, we have taken into consideration the principal factors and reasons set out below. In reaching our conclusion, we have considered the results of the analyses in light of each other and ultimately reached an opinion based on the results of all analyses taken as a whole.

1. Background of Fortune REIT

1.1. Business of Fortune REIT

Fortune REIT was listed on the SGX-ST and the Hong Kong Stock Exchange on 12 August 2003 and 20 April 2010 respectively. We noted from the Letter to the Unitholders that the principal investment strategy of Fortune REIT is to invest in commercial properties including retail, office and industrial properties located in Hong Kong through the ownership of property companies (or other companies whose primary purpose is to hold or own properties) or directly in properties that Fortune REIT may acquire from time to time. According to the Introduction Listing Document, Fortune REIT aims to provide stable distributions to Unitholders and to achieve long-term growth in the net asset value per Unit. According to the Letter to the Unitholders, should the Acquisition be completed, the Manager intends to continue with the same key objectives and principal investment strategies for Fortune REIT as above.

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

Pursuant to a property management extension letter from the Property Manager to the Trustee and the Manager dated 11 August 2013, the Property Management Agreement has been extended for a further term of 5 years to 11 August 2018.

Under the Trust Deed, the Manager will receive an Acquisition Fee of not exceeding a maximum of 1% of the acquisition price for any real estate purchased directly or indirectly by Fortune REIT. Under the Property Management Agreement, the Property Manager is entitled to a fee of 3% per annum of the Gross Property Revenue

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

for the provision of property and lease management services. In addition, the Property Manager is also entitled to commissions for the provision of marketing services, such commissions are derived at by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees paid. Such Acquisition Fee can be paid to the Manager in the form of Units.

For further details regarding the Property Management Agreement, please refer to the section headed “**Material and Other Agreements Relating to Fortune REIT — Property Management Agreement**” in the Introduction Listing Document.

From the interim report of Fortune REIT for the six months ended 30 June 2013 (the “**2013 Interim Report**”), we noted the following messages:

- The retail sentiment remained positive, as the total value of retail sales in Hong Kong for the period from January to May 2013 increased by 15.0% compared to the same period last year.
- Fortune REIT’s portfolio of 16 private housing estate retail properties will continue to benefit from the strong retail environment.
- The Manager (i) remains watchful of the market environment and market opportunities; (ii) will continue to evaluate acquisition opportunities as they arise; and (iii) will continue to drive revenue growth by implementing asset enhancement initiatives projects, as well as effective leasing and tenant repositioning strategies.

1.2. Financial Highlights of Fortune REIT

Set out below is a summary of Fortune REIT’s financial information prepared in accordance with the International Financial Reporting Standards.

1.2.1. Profitability of Fortune REIT

Set out below is a summary of the key financials and certain performance indicators of Fortune REIT, extracted from Fortune REIT’s published reports:

	For the six months ended 30 June		For the year ended 31 December	
	2013	2012	2012	2011
Revenue (HK\$ million)	609.2	537.4	1,113.7	909.4
Net Property Income (HK\$ million)	437.6	382.1	788.3	642.1
Cost-to-revenue ratio	26.0%	26.7%	27.0%	27.2%
Income available for distribution (HK\$ million)	307.0	268.3	549.5	442.3
DPU (HK cents)	18.00	15.82	32.35	26.30
		As at 30 June	As at 31 December	
		2013	2012	2011
NAV per Unit (HK\$).		10.01	8.81	7.85
Property valuation (HK\$ million)		22,188	20,208	16,388

Source: 2013 Interim Report and the annual report of Fortune REIT for the year ended 31 December 2012 (the “**2012 Annual Report**”)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

2013 Interim Report contains a discussion of the DPU. The DPU (being the income available for distribution divided by Units in issue) for the six months ended 30 June 2013 was 18.00 Hong Kong cents, 13.8% higher than the DPU of 15.82 Hong Kong cents for the corresponding period in 2012. This represents an annualised distribution yield of 5.1% based on the unit price of HK\$7.10, the average of the closing prices for the unit as quoted on the SGX-ST and the Hong Kong Stock Exchange as at 28 June 2013 (being the last trading day of the then reporting period). Audited NAV per Unit amounted to HK\$10.01 as at 30 June 2013, up 13.6% from HK\$8.81 as at 31 December 2012, mainly as a result of the increase in the valuation of investment properties as set out in the 2013 Interim Report.

1.2.2. Borrowings and interest costs

Set out below is the Gearing Ratio/Aggregate Leverage of Fortune REIT extracted from Fortune REIT's published reports:

	As at 30 June 2013	As at 31 December	
		2012	2011
Gearing Ratio / Aggregate Leverage ⁽¹⁾	20.9%	23.4%	18.8%

Source: 2013 Interim Report and 2012 Annual Report

Note:

- (1) Gearing Ratio is defined as total borrowings as a percentage of gross assets. Aggregate Leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 31 December 2011 and 2012, and 30 June 2013, there was no deferred payment.

We note that the Gearing Ratio/Aggregate Leverage of Fortune REIT of 20.9% for as at 30 June 2013 did not exceed the borrowing limits under the Singapore Property Funds Appendix and the REIT Code currently limit: (a) the Aggregate Leverage to 35% (as no credit rating has been obtained by Fortune REIT); and (b) the Gearing Ratio to 45% of Fortune REIT's Deposited Property, respectively.

As disclosed in the 2013 Interim Report, as at 30 June 2013, the total committed loan facilities amounted to HK\$5,200 million and a total of HK\$4,768 million was drawn and the gross liability, as a percentage of gross assets of Fortune REIT, was 25.4% as at 30 June 2013 (31 December 2012: 28.1%).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

The net current liabilities as at 30 June 2013 was HK\$1,037.7 million, mainly due to the drawdown of the revolving credit facility in 2011 to partially finance the acquisition of the Belvedere Garden Property and the Provident Centre Property in 2012. The maturity profile and the weighted average effective cost of borrowing of the Group are set out below:

	As at 30 June 2013	As at 31 December	
	(HK\$'000)	2012 (HK\$'000)	2011 (HK\$'000)
Carrying amount repayable:			
On demand or within one year	840,000	940,000	420,000
More than one year, but not more than two years.	1,081,824	–	–
More than two years, but not more than five years.	2,804,724	3,878,815	2,794,231
Total borrowings	4,726,548⁽¹⁾	4,818,815	3,214,231
Bank balances, deposits and cash	552,506	578,022	881,721
Net borrowings	4,174,042	4,240,793	2,332,510
Weighted average effective cost of borrowing.	2.81%	2.78%	3.65%

Source: 2013 Interim Report and 2012 Annual Report

Note:

- (1) According to the 2013 Interim Report, an unamortised front end fees of approximately HK\$41.4 million has been excluded from the total borrowings.

According to the 2013 Interim Report, there is an option to rollover the revolving credit facility up until maturity. The weighted average debt maturity of its facilities was 2.5 years, and the facilities are secured over Fortune REIT's 13 investment properties, which carried an aggregate fair value of HK\$17,381 million as at 30 June 2013 as set out in the 2013 Interim Report.

2. Information on the Acquisition

On 28 August 2013, the Trustee, the Guarantor and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Trustee (or the Nominee) the Target Company Shares with the rights attaching to them as at and from the Completion Date; and (ii) assign to the Trustee (or the Nominee) the Shareholder Loan. Upon Completion, Fortune REIT will (through the Target Company) hold the Kingswood Ginza Property.

Under the Share Purchase Agreement, the Consideration is HK\$5,849 million, which according to the Manager was arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers, subject to the Current Adjustment. For further details, please refer to section 2.4.2 of the Letter to the Unitholders headed "Consideration".

As set out in the Letter to the Unitholders, the Share Purchase Agreement and other Transaction Documents have been entered into, or shall be entered into, by the parties thereto on normal commercial terms following arm's length negotiations. We note that the Kingswood Ginza Property is sold on an "as-is" basis and subject to the existing leases, tenancies and licences. We are advised that, the Manager has conducted, and is satisfied with the results of, due diligence in respect of the Kingswood Ginza Property. According to the Letter to the Unitholders, such due diligence has been carried out in accordance with the relevant provisions of the REIT Code and the Manager's compliance manual. As at the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Latest Practicable Date, the Manager was not aware of any issues from the due diligence exercise. Immediately upon Completion, Fortune REIT will (through the Target Company) hold good marketable legal and beneficial title in the Kingswood Ginza Property.

We noted that the Accountants' Report in respect of the Target Company set out in Appendix 2 relates to the consolidated financial information of the Target Company group for each of the three years ended 31 December 2010, 2011 and 2012, and the six months ended 30 June 2013, which (among other things) includes financial information in respect of assets and liabilities of the hotel and serviced suites that were subsequently transferred by the Target Company to the Target Company's fellow subsidiary on 26 July 2013. As such, the Manager advised that the Accountants' Report does not fully reflect the financial position and profitability of the assets to be acquired upon Completion and therefore the relevant analysis will be focused on the unaudited pro forma consolidated statement of financial position and profit or loss and other comprehensive income of Enlarged Group. For certain financial information in respect of the retail properties segment of the Target Company group (which does not include the hotel and serviced suites), please refer to note 5 of the Accountants' Report in respect of the Target Company as set out in Appendix 2 to the Circular.

2.1. Information on the subject matter

According to the Letter to the Unitholders, the Target Company wholly-owns the Kingswood Ginza Property. As at the Latest Practicable Date, the Target Company's principal business activity was property investment in Kingswood Ginza Property and it did not hold any other property investments or operate any businesses. The Kingswood Ginza Property comprises the entire shopping mall as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserve shares and common areas within the Kingswood Development which is located in Tin Shui Wai, Yuen Long, New Territories, an area close to Mainland China and a non-core location of Hong Kong.

We note from the Letter to the Unitholders that,

- (i) the percentage of total Gross Rental Income from Connected Persons for the six months ended 30 June 2013 was 15.8%;
- (ii) in respect of the tenancies of the Kingswood Ginza Property as at 30 June 2013, less than 13% of the Gross Rentable Area of tenancies will expire by the end of 31 December 2013;
- (iii) the average monthly rental per leased sq. ft. of HK\$27.4, is calculated by dividing Gross Rental Income for the month ended 30 June 2013 by leased Gross Rentable Area as at 30 June 2013;
- (iv) in respect of the Kingswood Ginza Property, provisions for unpaid rents were less than 0.01% of the Gross Revenue for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013;
- (v) the Kingswood Ginza Property has a high occupancy rate (95.5% as at 30 June 2013); and
- (vi) the Kingswood Ginza Property has a diversified trade mix of over 200 tenants that mainly caters to the daily necessities of the catchment population,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

details of which are set out in section 5.1.4 of the Letter to the Unitholders headed “**Tenant Profile and Details of Tenancy Mix**”. For further details, please refer to section 5.1 of the Letter to the Unitholders headed “**The Kingswood Ginza Property**”.

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

The average monthly rental per leased sq. ft. of Kingswood Ginza Property as stated in the Letter of Unitholders is within the range of the average monthly rental per leased sq. ft. of the Existing Properties computed from the data extracted from 2012 Annual Report. Based on the above, we note that the average monthly rental per leased sq. ft. of Kingswood Ginza Property is in line with the average monthly rental per leased sq. ft. of the Existing Properties.

We have obtained and reviewed (i) summary list of existing tenancies; and (ii) the standard tenancy agreement template, provided by the Manager. Based on the above and taking into account the information available in the Circular, to the best of our knowledge, we are not aware of any abnormal and unusual terms in the existing tenancy agreements of the Kingswood Ginza Property.

The existing owners would retain the remainder of the Kingswood Development (which includes core assets of 58 residential tower blocks, the hotel known as “Harbour Plaza Resort City” with a total of 1,102 hotel rooms, a police reporting centre, and other commercial areas and parking lots).

2.2. Consideration of the Acquisition

In accordance with the Share Purchase Agreement, the Consideration of HK\$5,849 million is subject to the Current Adjustment for:

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

of the Target Company as at Completion but excluding the Shareholder Loan and any deferred tax liabilities of the Target Company.

The basis of the Consideration is a commercial point to be agreed upon between the buyer and the seller having regard to the particular facts and circumstances. As set out in the Letter to the Unitholders, the Consideration shall be applied: (i) firstly, as payment on a dollar-for-dollar basis for the assignment to the Trustee (or the Nominee) of the Shareholder Loan; and (ii) thereafter, as payment for the transfer of the Target Company Shares. The Letter to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Unitholders also clarified that the consideration payable for the assignment of the Shareholder Loan is part of the consideration payable under the Share Purchase Agreement.

As the liabilities will be discharged or dealt with in the manner described below, the Manager does not consider it necessary to adjust the Consideration for non-current assets or liabilities. The non-current assets in the Target Company mainly relates to the carrying value of the Kingswood Ginza Property. The non-current liabilities are the Shareholder Loan and deferred tax liabilities relate to the Kingswood Ginza Property. According to the Letter to the Unitholders, the Shareholder Loan will be assigned to the Trustee (or the Nominee) as at the Completion Date. The deferred tax liabilities are the tax allowances previously claimed by the Target Company in respect of the Kingswood Ginza Property. As the Manager plans to hold Kingswood Ginza Property as a long term investment, the Manager is of the view that such deferred tax liabilities are unlikely to be crystallised. We note that there were precedent transactions with similar arrangement. The Manager advised and we also learnt from section 2.4.3 headed “**Vendor’s Hive-Out Obligations**” and section 2.4.8 headed “**Deed of Tax Covenant**” that, the deferred tax liabilities are covered under the Deed of Tax Covenant whose the limitation period for claims under the Deed of Tax Covenant is seven years from the Completion Date.

Taking into account (i) the Target Company only has deferred tax liabilities in its non-current liability as stated in the Statement of Financial Position in the Accountants’ Report in respect of the Target Company as set out in Appendix 2 to the Circular; (ii) the deferred tax liabilities are unlikely to be crystallised (based on the Manager’s plan to hold as long term investment); and (iii) such deferred tax liabilities have been excluded in the Current Adjustment, we are of the view that (i) there are justifiable reason; and (ii) there is no material adverse impact to the Transaction, for not adjusting for the non-current assets and non-current liabilities.

The Current Adjustment will be audited within 90 days after Completion with a view to making any final adjustments to reflect the final adjusted asset value of the Target Company (and such adjustments may be applicable either in favour of the Trustee or the Vendor). The final adjusted purchase consideration for the Kingswood Ginza Property shall be announced by the Manager as soon as practicable following the determination of such adjustments, together with the quantum of the adjustment amounts.

According to the Letter to the Unitholders, the Current Adjustment is the result of commercial negotiations between the parties and is consistent with the approach on adjustments taken by the Manager and the Trustee on other transactions in the past.

At Completion, the Target Company shall not have any operations or business other than the ownership of the Kingswood Ginza Property.

Also, the Share Purchase Agreement contains covenants that, among others: (a) require the Target Company not to carry on any business other than in the ordinary course, without the prior written consent of the Trustee; (b) restrict the Target Company from entering into any agreement or incurring any commitment involving material expenditure (in an amount exceeding HK\$500,000), without the prior written consent of the Trustee; and (c) restrict the Target Company from

incurring additional borrowing and any other indebtedness otherwise than in the ordinary course of business, without the prior written consent of the Trustee. According to the Letter to the Unitholders, the Manager considered that these contractual protections mitigate the risk to Fortune REIT of any possible adverse changes to the assets of the Target Company arising from acts or omissions of the Vendor. Based on the above, we consider the contractual protections to be in the interest of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

We note from the Letter to the Unitholders that, the Consideration (i) has been arrived at on a willing buyer and a willing seller in an arm's length transaction basis after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers; and (ii) represents a discount of less than 0.2% from the average appraised values of the Kingswood Ginza Property as at 30 June 2013 as prepared by JLL engaged by the Trustee and Savills engaged by the Manager. For further discussions on the property valuations, please refer to the paragraph 4 headed "**Valuation of the Properties as appraised by the Independent Property Valuers**" to this letter below.

2.3. The Vendor's Hive-Out Obligations

According to the Letter to the Unitholders, the Share Purchase Agreement also provides that prior to Completion, the Vendor will procure the Target Company to:

- (i) dispose of all its assets other than (a) the Kingswood Ginza Property; (b) the fixed plant and equipment located in or on or which otherwise relate to the Kingswood Ginza Property or its operations; and (c) the current assets relating to the Kingswood Ginza Property that will be adjusted for pursuant to the Current Adjustment;
- (ii) discharge all of its liabilities, other than: (a) the Shareholder Loan; (b) the current liabilities relating to the Kingswood Ginza Property that will be adjusted for pursuant to the Current Adjustment; (c) the provision of deferred tax liabilities relating to the Kingswood Ginza Property that will be the subject of a Vendor Indemnity (including claw back of taxation in respect of allowances); and (d) immaterial liabilities that have been taken into account when determining the unadjusted Consideration;
- (iii) transfer or assign any licences of the Target Company, which are not relating to the Kingswood Ginza Property; and
- (iv) terminate or novate all rights and obligation under any contracts to which the Target Company is a party, which are not related to or in connection with the Kingswood Ginza Property.

For further details, please refer to section 2.4.3 of the Letter to the Unitholders headed "**Vendor's Hive-Out Obligations**".

We note from the Accountants' Report in respect of the Target Company, the assets and liabilities of the hotel and serviced suites had been transferred by the Target Company to the Target Company's fellow subsidiary on 26 July 2013.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

As advised by the Manager, Fortune REIT will be acquiring the Target Company, which effectively only has the ownership of the Kingswood Ginza Property. According to the Manager, the above mentioned hive-out obligations of the Vendor were related to the disposal of hotel and serviced units, which are not the subject of the Acquisition or part of Kingswood Ginza Property. We considered such obligations are to facilitate the Acquisition and the subsequent Completion and is in the interests of Fortune REIT.

2.4. Financing of the Acquisition

The Manager currently expects to finance the Consideration by: (a) drawing down approximately HK\$4,902 million under the New Facilities; and (b) using approximately HK\$947 million out of the aggregate net proceeds from the Unit Placement. For further details relating to the Unit Placement, please refer to Fortune REIT's announcement regarding the same dated 30 July 2013.

The Manager has on 30 July 2013 signed mandate letters from DBS Bank Ltd. and Standard Chartered Bank (Hong Kong) Limited in relation to term loans up to an aggregate principal amount of HK\$5,227 million (the "New Facilities"). The New Facilities comprise of: (a) a HK\$1,066.3 million term loan with interest margin of 1.48%; (b) a HK\$2,340.0 million term loan with interest margin of 1.30%; (c) a HK\$1,160.7 million unsecured term loan with interest margin of 1.70%; (d) a HK\$660 million unsecured term loan with interest margin of 1.7%, all interest rates are per annum over HIBOR, and the loan will mature and become repayable in 5, 3.5, 3.5 and 3.5 years respectively from the respective date of the agreement in respect of such facility. For further details, please refer to section 4.2 of the Letter to the Unitholders headed "New Facilities".

We are advised by the Manager that the drawn down amount of the New Facilities would be reported as "Long Term Debt" in the annual report of the Fortune REIT for the year ending 31 December 2013 and we noted that the Manager has confirmed that the Enlarged Group has sufficient liquid assets to meet its working capital and operating requirements for the 12 months period commencing from the date of the Circular.

The financing options for the Transaction are bound by several parameters which are specific to Fortune REIT, which is listed both in Singapore and Hong Kong. On the one hand, if the Transaction is entirely financed by way of equity through issue of new Units, an immediate dilution to all the existing Unitholders' interest (and not just to the Independent Unitholders' interest) would be created. On the other hand, if the Transaction is entirely financed by way of debt, there will be no dilution to existing Unitholders' interest. However, if the Transaction is entirely financed by way of debt, the leverage of Fortune REIT would exceed the maximum borrowing limit allowable under the Singapore Property Funds Appendix unless a credit rating is obtained. In addition, there are cash finance costs associated with debt financing. As such, the Manager decided that the proposed financing for the Transaction should be done by way of a mixture of equity and debt. For the Unit Placement, an immediate dilution will be created to the interests of all the existing Unitholders, and not just to the Independent Unitholders. For the debt financing, its impact will be felt on Fortune REIT as a whole and no individual Unitholders will be prejudiced unfairly. As such, we consider that the acquisition financing for this Acquisition by a mix of equity and debt is fair as far as the Independent Unitholders are concerned and a reasonable approach for Fortune REIT.

2.5. Costs of Acquisition

Under the Trust Deed, the Manager will receive an acquisition fee of not exceeding a maximum of 1% of the acquisition price for any real estate purchased directly or indirectly by Fortune REIT. Based on the acquisition fees charged by the other REITs listed on the Main Board of Hong Kong Stock Exchange, we are of the view that such Acquisition Fee charged by the Manager is in line with market.

The estimated total fees and charges payable by Fortune REIT in relation to the Acquisition are HK\$116 million, and it is currently expected that such fees and charges payable by Fortune REIT to the Manager in relation to the Acquisition will be paid to the Manager in the form of Acquisition Fee Units while the additional costs in relation to the Acquisition will be financed by the New Facilities. For further details, please refer to sections 2.6.1 and 2.6.2 of the Letter to the Unitholders headed "**Fees payable by Fortune REIT to the Manager in relation to the Acquisition**" and "**Additional costs payable in relation to the Acquisition**" respectively.

Accordingly, the total cost of the Acquisition (including fees and charges) is estimated to amount to approximately HK\$5,965 million, subject to the Current Adjustment. This estimated total cost of the Acquisition represents approximately 35.0% of Fortune REIT's audited NAV of HK\$17,058.5 million as at 30 June 2013.

2.6. Ongoing fees and charges payable to the Manager and the Trustee in relation to the Kingswood Ginza Property following Completion

Pursuant to the Trust Deed, the Manager and the Trustee will be entitled to fees attributable to the Kingswood Ginza Property in the future for so long as the Kingswood Ginza Property continues to form part of the Deposited Property. For further details, please refer to section 2.6.3 of Letter to the Unitholders headed the "**Ongoing fees and charges payable to the Manager and the Trustee in relation to the Kingswood Ginza Property following Completion**".

2.7. Representations and Warranties

As disclosed in the Letter to the Unitholders, the Share Purchase Agreement sets out, among others, limitations on the liability of the Vendor in respect of any breach of warranties or other provisions of the Share Purchase Agreement. The maximum aggregate liability of the Vendor in respect of all claims under the Share Purchase Agreement shall not exceed the consideration payable by the Trustee under the Share Purchase Agreement. The Letter to the Unitholders also states that, (i) the Trustee shall not be entitled to recover from the Vendor under the Share Purchase Agreement more than once in respect of the same damage suffered; and (ii) the Share Purchase Agreement also provides for a limitation period of 21 months from the Completion Date for all claims relating to warranties (other than claims relating to tax-related warranties, in which case the limitation period is seven years from the Completion Date). For further details, please refer to sections 2.4.6 of the Letter to the Unitholders headed "**Representations and Warranties**".

2.8. Covenants and Indemnities

The Vendor irrevocably undertakes to indemnify and keep indemnified the Trustee to the fullest extent permissible by law against any and all losses which the Trustee or the Target Company may suffer which arises out of or in connection with:

- (a) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company or the Trustee resulting from any outstanding legal proceedings relating to the Target Company as at the Completion;
- (b) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company suffered or incurred in connection with the Post Completion Contracts; and
- (c) any liabilities incurred, and any reasonable costs and expenses properly incurred, by the Target Company suffered or incurred in connection with being the holder of any Unrelated Licences.

For further details, please refer to section 2.4.7 of the Letter to the Unitholders headed "**Covenants and Indemnities**".

2.9. Guarantee of the Vendor's Obligations under the Share Purchase Agreement

The Guarantor has unconditionally and irrevocably guaranteed to the Trustee the due and punctual payment of all amounts payable by the Vendor under the Share Purchase Agreement and the due and punctual performance and observance by the Vendor of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Share Purchase Agreement.

Since 2003, the Manager has appointed the Property Manager to manage, supervise, maintain and market the Fortune REIT's real estate assets and the parties to the Property Management Agreement intend to extend the scope of the property management services so as to include the Kingswood Ginza Property pursuant to the Deed of Ratification and Accession.

At Completion, (i) the Vendor (along with the Guarantor) and the Trustee will enter into a Deed of Tax Covenant; and (ii) the Nominee, the Trustee, the Manager and the Property Manager will enter into Deed of Ratification and Accession.

Pursuant to the Deed of Tax Covenant, the limitation period for claims under the Deed of Tax Covenant is seven years from the Completion Date. For further details, please refer to section 2.4.8 of the Letter to the Unitholders headed "**Deed of Tax Covenant**".

Pursuant to the Deed of Ratification and Accession, the operation, maintenance, management and marketing of the Kingswood Ginza Property will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement, details of which are set out in section 2.4.11 of the Letter to the Unitholders headed "**Deed of Ratification and Accession**".

We learnt from the Manager that, (i) the Share Purchase Agreement and other Transaction Documents have been entered into, or shall be entered into, by the parties thereto on normal commercial terms following arm's length negotiations; and (ii) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

limitation cap and period of the representations and warranties as set out in section 2.4.6 of the Letter to the Unitholders are the result of arm's length negotiations between the relevant parties and are consistent with other transactions that Fortune REIT has entered into in the past.

According to the Letter to the Unitholders, we understand that, as at the Latest Practicable Date, the Manager was not aware of any issues in its due diligence exercise.

Based on the above, we consider that the representations and warranties, and covenants and indemnities provided by the Vendor, which are generally consistent with Fortune REIT's transaction announced on 28 December 2011, are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

Completion shall take place 5 days (or such other date as the Vendor and the Trustee may mutually agree) after the Conditions set out in section 2.4.5 of the Letter to the Unitholders headed "**Conditions Precedent**" have been fulfilled, or if later, the date following 5 days after the outstanding pre-completion obligations of the Vendor set out in paragraphs (iii) and (iv) of section 2.4.3 of the Letter to the Unitholders headed "**Vendor's Hive-Out Obligations**" are fulfilled. For further details, please refer to section 2.4 of the Letter to the Unitholders headed "**The Share Purchase Agreement**".

According to the Letter to the Unitholders, the passing of the EGM Resolution in relation to the Transaction Matters Requiring Approval by the Independent Unitholders is one of the condition precedents to be satisfied for Completion to take place. Based on the above, we are of the view that the interest of the Unitholders is safeguarded and it is in line with the market in the context of a connected transaction.

Upon Completion, the Fortune REIT Group will enter into continuing transactions (which will constitute continuing connected party transactions, of Fortune REIT within the meaning of the REIT Code), with its Connected Persons. Please refer to section 9 headed "**New Continuing Connected Party Transactions**" to this letter below.

3. Reasons for, and benefits of the Acquisition

The reasons for and benefits of the Acquisition are set out under section 3.1 of the Letter to the Unitholders headed "**Reasons for, and Benefits of the Acquisition**" and are extracted as follows:

(i) Yield Accretive Acquisition in terms of distribution

The Acquisition is expected to be yield accretive. Based on the pro forma financials as set out in section 6 of the Letter to the Unitholders headed "**Financial effects of the Transaction and the Unit Placement**", as if the Acquisition and the Unit Placement were completed on 1 January 2013 and based on the other assumptions in section 6 of the Letter to the Unitholders headed "**Financial effects of the Transaction and the Unit Placement**", Fortune REIT's pro forma DPU would have increased by 4.7% from 18.00 HK cents to 18.84 HK cents for the six months ended 30 June 2013. We note that distribution yield is computed by the income available for distribution divided by Units in issue.

The Manager uses the pro forma financial information contained in Appendix 3 to the Circular to illustrate the financial impact arising from completion of Unit Placement and the Transaction. Based on the illustration contained in the

above-mentioned appendix, we understand that the Acquisition would improve the earnings per Unit and DPU to existing Unitholders, which we consider to be in the interest of the Unitholders.

With the improvement in DPU, distribution would be enhanced subsequently, assuming no change in the number of units in issue. The acquisition of a yield accretive, quality income-producing property supplements the Manager's on-going asset enhancement initiatives to generate organic growth from the Existing Properties.

For other financial impacts, please refer to section 6 headed "Financial Effects of the Transaction and the Unit Placement" below.

(ii) Quality Asset in Strategic Location

The Kingswood Ginza Property has following competitive strengths:

- **Strategically located with strong catchment area:** Being the largest shopping mall in the Yuen Long District of Hong Kong, Kingswood Ginza Mall is strategically located in the centre of the Tin Shui Wai residential area. According to the Market Consultant's Report, the Kingswood Ginza Mall serves a total population of 287,901, representing 92,692 households in 2011. Based on the Market Consultant's Report, the median monthly household income of its primary catchment was HK\$26,966 by then, compared to the HK\$20,500 median for Hong Kong as a whole. In addition, the Kingswood Ginza Mall also serves the hotel guests of 1,102 rooms and suites of the hotel known as "Harbour Plaza Resort City";
- **High occupancy and diversified tenant base:** It has a high occupancy rate (95.5% as at 30 June 2013) and a diversified trade mix of over 200 tenants that mainly caters to the daily necessities of the catchment population;
- **Direct accessibility to public transportation:** It is directly accessible by bus and light-rail train and within walking distance from the Tin Shui Wai MTR station; and
- **Beneficiary of demand from visitors from mainland China:** Due to its close proximity to the mainland China border, the Kingswood Ginza Property is in a good location to capture the growing demand from mainland China visitors as well as the expanding residential area nearby. Visitors from mainland China can easily gain access to Tin Shui Wai via the Hong Kong – Shenzhen Western Corridor.

(iii) Greater Exposure to the Buoyant Retail Sector

The Acquisition fits the Manager's investment strategy of owning commercial properties with high occupancy and long term growth potential and provides an opportunity for further exposure to the robust retail market in Hong Kong.

Based on the Market Consultant's Report, Hong Kong retail sales value experienced a year-on-year growth of 9.8% in 2012. The growth accelerated to 15.5% year-to-year from January to April 2013 mainly due to reviving luxury spending by mainland tourists and local spending on consumer goods. In 2012, overnight tourist expenditure on shopping continued to increase by 11.9%, reaching HK\$110.7 billion

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

and the Market Consultant believes that mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years.

According to the Market Consultant, non-core shopping centres are increasingly popular among international retailers. In light of the fierce competition among international brands for prime spaces in core areas or traditional shopping districts, some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially those seeing increasing mainland China footfall. The Market Consultant expects the non-core retail rental to grow at approximately 10% to 15% per annum between 2013 to 2015.

(iv) Operating Synergies

Fortune REIT will benefit from the increased portfolio size that will create a stronger platform to spread the fixed operating costs over a larger portfolio and cost savings can be enjoyed, thus achieving greater operating synergies and economies of scale in operation.

The Manager is of the view that the Acquisition is in the ordinary course of Fortune REIT's business as it falls within Fortune REIT's investment policy. Based on the above, we are of the view that the Acquisition is in the ordinary course of Fortune REIT's business as it is in line with Fortune REIT's investment policy.

4. Valuation of the Properties as appraised by the Independent Property Valuers

We noted that JLL and Savills were commissioned by the Trustee and the Manager respectively to assess the market value of the Kingswood Ginza Property. We also noted that (i) the Independent Property Valuers' Property Valuation Reports were prepared pursuant to Appendix 6 to the Code on Collective Investment Schemes of Singapore and Chapter 6 of the REIT Code; and (ii) the Independent Property Valuers have confirmed that they are independent pursuant to Appendix 6 to the Code on Collective Investment Schemes of Singapore and paragraph 6.5 of the REIT Code.

The following table sets out the appraised values (as at 30 June 2013) and purchase consideration of the Kingswood Ginza Property:

<u>by JLL</u> <u>(appointed by the Trustee)</u>	<u>by Savills</u> <u>(appointed by the Manager)</u>	<u>Consideration</u>
(HK\$ million)	(HK\$ million)	(HK\$ million)
5,858	5,850	5,849 ⁽¹⁾

Note:

(1) Before taking into account the Current Adjustment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

For further details, please refer to Appendix 4 of the Circular for the Independent Property Valuers' Property Valuation Reports from each of the Independent Property Valuers. We have discussed with both Independent Property Valuers the following matters:

4.1. Valuation methodologies

As stated in the Property Valuation Reports prepared by the two Independent Property Valuers independently, both Independent Property Valuers adopted the income capitalisation approach in arriving at the appraised value and counter-checked by the direct comparison approach. According to the Letter to the Unitholders, the income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or were leased.

We have discussed with each of the Independent Property Valuers on (i) the rationale of adopting the income capitalisation approach as the principal valuation methodology as against the direct comparison approach; and (ii) the basis and assumptions adopted in arriving at the appraised value using income capitalisation approach and direct comparison approach.

According to the confirmations respectively made by the Independent Property Valuers, the income capitalisation approach as the primary valuation methodology and counter-checked by the Direct Comparison Approach has been adopted and widely-accepted in the property valuation profession as such approach is commonly adopted and widely-accepted in the property valuation profession for investment properties in Hong Kong and in similar valuation exercises.

4.2. Valuation basis and assumptions

According to both Independent Property Valuers, in arriving at the appraised value using the income capitalisation approach, the income stream adopted is based on the existing unexpired contractual tenancies of the Kingswood Ginza Property, whilst vacant units are assumed to be let at their respective market rents as at the valuation date. Upon expiry of the existing tenancies, each unit is assumed to be let at their respective current market rents as at the valuation date. The capitalisation rate as stated in each of the Independent Property Valuers' Property Valuation Reports is based on the yields achieved in analysed market sales transactions available to the Independent Property Valuers and the Independent Property Valuers' knowledge of the market expectation from property investors.

As discussed and confirmed by the Independent Property Valuers respectively, we note that the basis and assumption adopted in arriving at the appraised value using income capitalisation approach are based on objective parameters including the contractual terms of the tenancies and market yields of comparable transactions available to each of the Independent Property Valuers, together with the Independent Property Valuers' respective professional judgement.

As advised by each of the Independent Property Valuers, they consider the valuation, valuation methodologies, valuation basis and assumptions adopted by the Independent Property Valuers, as disclosed in the Independent Property Valuers' Property Valuation Reports, to be in line with the market practice, appropriate and reasonable as at the date

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

of the Circular. Based on the above, we concluded that we could rely on the appraised values of the Kingswood Ginza Property prepared by JLL and Savills. The Manager has confirmed that the valuation methodologies, valuation basis and assumptions adopted by the Independent Property Valuers are reasonable. In light of the above and based on our discussion with the Manager and the Independent Property Valuers, we consider the valuation methodologies, valuation basis and assumptions adopted by the Independent Property Valuers, as disclosed in the Independent Property Valuers' Property Valuation Reports to be in line with market practice and therefore reasonable as at the date of the Circular.

As disclosed in the Letter to the Unitholders, the Consideration is agreed to be HK\$5,849 million (arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers), subject to the Current Adjustment. We note that the Consideration represents a discount of 0.15% and 0.02% from the appraised values of the Kingswood Ginza Property as prepared by JLL and Savills respectively. According to the confirmation from the Manager, we understand that the Consideration was arrived at after taking into account of various factors, including but not limited to (i) the appraised value of the Kingswood Ginza Property; (ii) the uniqueness and scarcity of the Kingswood Ginza Property as the largest shopping mall in Yuen Long district; (iii) the strategic location of the Kingswood Ginza Property in Tin Shui Wai where it serves a total population of approximately 288,000 people within the catchment area; and (iv) the Transaction is concluded based on arm's length negotiation and the price level was agreed between the parties on a willing buyer and willing seller basis. The Manager has further confirmed that it did not take into account the fact that the Vendor is an associate of its controlling Unitholder in the negotiation.

Based on the above, we are of the view that the Consideration, which was the result of after arm's length negotiation between the parties after the Manager had reflected on a number of factors as discussed above, in particular the appraised values of the Kingswood Ginza Property put forward by JLL and Savills respectively, is reasonable as far as the Independent Unitholders are concerned. Moreover, in light that the Consideration is in line with the value of the Kingswood Ginza Property appraised by JLL and Savills, being Independent Property Valuers, respectively, and the confirmation from the Manager that it did not take into account the fact that the Vendor is an associate of its controlling Unitholder in the negotiation, we are also of the view that the Consideration is fair as far as the Independent Unitholders are concerned. Hence, we are of the view that the Consideration is both reasonable and fair as far as the Independent Unitholders are concerned. We would however stress that the Consideration is only one out of a number of key terms of the Transaction, and the Independent Board Committee and the Independent Unitholders should take into account the discussions on various aspects of the Transaction in this letter in forming their views.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

5. Comparable analysis of Kingswood Ginza Property

According to the Letter to the Unitholders, the Consideration was arrived at after taking into account the valuations of the Kingswood Ginza Property by the Independent Property Valuers. The comparable analysis of Kingswood Ginza Property is for illustration purpose only.

(i) Comparable analysis of the estimated property yields of the Kingswood Ginza Property against the property yields of the Existing Properties

The net property yield of Kingswood Ginza Property, as estimated by JLL and Savills is set out below:

	Net Property Yield ⁽¹⁾		
	JLL	Savills	Average
Kingswood Ginza Property	4.0%	3.9%	3.95%

Note:

(1) As stated in the Independent Property Valuers' Property Valuation Reports of JLL and Savills, estimated net property yield is calculated based on the actual monthly passing rent receivable and average monthly net car park income of the Kingswood Ginza Property during the period from July 2012 to June 2013.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

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

<u>Property</u>	<u>Valuation Date</u>	<u>Property Yield (%)</u>
Fortune City One	31 December 2012	3.65
Ma On Shan Plaza	31 December 2012	4.37
Metro Town	31 December 2012	3.71
Fortune Metropolis	31 December 2012	4.11
Waldorf Avenue	31 December 2012	4.14
Caribbean Square	31 December 2012	3.90
Smartland	31 December 2012	3.86
Tsing Yi Square	31 December 2012	4.23
Jubilee Square	31 December 2012	3.19
Nob Hill Square	31 December 2012	4.25
Centre de Laguna	31 December 2012	3.97
Hampton Loft	31 December 2012	4.55
Lido Avenue	31 December 2012	3.99
Rhine Avenue	31 December 2012	3.83
Belvedere Square	31 December 2012	3.55
Provident Square	31 December 2012	3.63
	High	4.55
	Low	3.19
	Weighted Average	3.93
	Mean	3.93
	Median	3.94
Kingswood Ginza Property	30 June 2013	3.95

Source: 2012 Annual Report and Independent Property Valuers' Property Valuation Reports

Notes:

- (1) Property yields of the Existing Properties are computed based on the Net Property Income (the aggregate of gross revenue less property operating expenses) of the respective Existing Properties for the financial year ended 31 December 2012 divided by the market valuation of the respective Existing Properties as extracted from 2012 Annual Report. The property yield of Kingswood Ginza Property is based on the average property yields as estimated by the Independent Property Valuers.
- (2) The weight average is calculated based on the contribution of the respective properties to the net property income as disclosed in the 2012 Annual Report.

We note from the table above that the Kingswood Ginza Property's average estimated property yield is within the range of the property yields and above the weighted average, mean and median of the property yield offered by the Existing Properties. We learnt from the Manager that this is one of its key considerations in this Acquisition. Based on the above, we are of the view that the Kingswood Ginza Property's average estimated property yield is in line with the property yield of the Existing Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

(ii) Property yields of the Kingswood Ginza Property as compared to those of the comparable properties held by REITs listed in Hong Kong

In assessing the Acquisition, our selection criteria of the comparable properties include those retail properties that are (a) the shopping malls located in Hong Kong; (b) owned by REITs listed on the Hong Kong Stock Exchange (including Fortune REIT); (c) with a market valuation of more than HK\$1 billion, as at their respective valuation date which we consider to represent closer comparison to the Kingswood Ginza Property (as a whole the “REIT Comparable Properties”). We wish to highlight that (i) the REIT Comparable Properties and Kingswood Ginza Property were appraised at different valuation date; and (ii) although the REIT Comparable Properties are broadly comparable to the Kingswood Ginza Property in terms of them being retail properties located in Hong Kong, such REIT Comparable Properties may not be exhaustive and may differ from the Kingswood Ginza Property in terms of, inter alia, valuation date, building size and design, geographical location, tenant mix, tenants’ lease expiry profile, operating history and future prospects. As such, any comparison made is necessarily limited and merely serves only as an illustrative guide.

Name of REIT	Number of Comparable Properties held by the REIT	Property yields of the Comparable Properties (%)	Valuation date
Fortune REIT ⁽¹⁾	6	3.55 to 4.37	31 December 2012
REIT A ⁽²⁾⁽³⁾	28	4.44 to 5.63	31 March 2013
REIT B ⁽¹⁾⁽³⁾	2	3.58 to 3.85	30 June 2012
	High	5.63	
	Low	3.55	
	Mean	4.89	
	Median	5.16	
Kingswood Ginza Property⁽⁴⁾		3.95	30 June 2013

Notes:

- (1) The property yields of the REIT Comparable Properties of Fortune REIT and REIT B are computed based on the net property income of the respective properties for the year ended 31 December 2012 and 30 June 2012 respectively, divided by the appraised value of the respective properties as extracted from 2012 Annual Report and REIT B’s 2011/2012 annual report for the year ended 31 December 2012 and 30 June 2012 respectively.
- (2) The property yields of the REIT A is computed based on the net property income of the respective properties for the year ended 31 March 2013 divided by the market valuation of the respective properties as extracted from REIT A’s annual report for the year ended 31 March 2013.
- (3) The REITs listed on the Hong Kong Stock Exchange have been code-named “REIT A” and “REIT B” in the table above.
- (4) The property yields of the Kingswood Ginza Property are based on average of the estimates by the Independent Property Valuers.

We note from the table above that the Kingswood Ginza Property’s yield is within the range of the yields offered by the REIT Comparable Properties but below the mean and median of the REIT Comparable Properties. Based on the above, we are of the view that the Kingswood Ginza Property’s average estimated property yield is in line with the property yield offered by the Comparable Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

We also note from the Market Consultant's Report that, the local retail market is expected to continue to be well supported by both local and tourist spending from 2013 onwards with a sustainable growth rate.

(iii) Comparable analysis of the Kingswood Ginza Property to selected recent transactions involving shopping centres in Hong Kong

We note that the Manager has commissioned Savills (Hong Kong) Limited to prepare the Market Consultant's Report on the overview of the retail sector in Hong Kong and an assessment of the Kingswood Ginza Property. The full Market Consultant's Report is set out in Appendix 5 to the Circular.

According to the Market Consultant's Report, there were seven major transactions involving shopping centres in Hong Kong (the "Market Comparable Transactions") in 2012 which are broadly comparable to the Kingswood Ginza Property, details of which are set out below. We wish to highlight that the Market Comparable Transactions set out below may not be exhaustive and the shopping centres listed below may differ from the Kingswood Ginza Property in terms of, inter alia, valuation date, timing of acquisition, building size and design, geographical location, tenant composition, tenants' lease expiry profile, operating history and future prospects. As such, it merely serves only as an illustrative guide.

<u>Name of property</u>	<u>District</u>	<u>Consideration</u> (HK\$ million)	<u>Transaction Date</u>	<u>Gross Area</u> (sq. ft.)	<u>Price per sq. ft.</u> (HK\$)
Festival Walk	Kowloon Tong	20,700	Dec 2012	1,208,754	17,125
West 9 Zone, 38 Cherry Street	Tai Kok Tsui	630	Dec 2012	61,347	10,269
Riviera Gardens ⁽¹⁾	Tsuen Wan	508	Nov 2012	242,689	2,093
Allway Gardens ⁽¹⁾	Tsuen Wan	350	Nov 2012	188,048	1,861
Laguna City	Kwun Tong	1,500	Aug 2012	163,205	9,191
Indi Home	Tsuen Wan	360	Jul 2012	54,077	6,659
Emperor Plaza	Tsuen Wan	607	May 2012	61,592	9,854
				High	17,125
				Low	1,861
				Mean	8,150
				Median	9,191
Kingswood Ginza Property	Yuen Long District	5,849	Aug 2013	665,244	8,792 ⁽²⁾

Source: Market Consultant's Report and Independent Property Valuers' Property Valuation Reports

Note:

(1) Located in remote area with limited public transportation.

(2) The price per sq. ft. of the Kingswood Ginza Property is computed using the purchase consideration divided by their gross rentable area.

We note from the table above that the Kingswood Ginza Property's price per sq. ft. is within the range of the price per sq. ft., below the median but higher than the mean of the Market Comparable Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

As discussed with the Independent Property Valuers, we note that both Allway Gardens and Riviera Gardens are located in remote area with limited public transportation. Their price per sq. ft. is significantly lower than the rest of the Market Comparable Transactions, should these outliers are excluded from the Market Comparable Transactions, Kingswood Ginza Property's price per sq. ft. is below the mean and median of the Market Comparable Transactions of HK\$10,619 per sq. ft. and HK\$9,852 per sq. ft., respectively. Based on the above, we are of the view that the Kingswood Ginza Property's price per sq. ft. is in line with the price per sq. ft. of the Market Comparable Transactions.

6. Financial Effects of the Transaction and the Unit Placement

The financial effects of the Transaction and the Unit Placement on Fortune REIT are set out in section 6 of the Letter to the Unitholders headed "**Financial Effects of the Transaction and the Unit Placement**". Unitholders should note that the financial effects are strictly for illustrative purposes only and are based on various pro forma assumptions (comprising, among others, the financing structure, completion of the Transaction and the Unit Placement on the date as indicated) as set out in section 6 of the Circular. Based on these financial effects of the Transaction and Unit Placement on the dates as indicated, the Manager does not foresee any material adverse impact on the financial position of Fortune REIT as a result of the Transaction and Unit Placement.

We wish to highlight the following from the Letter to the Unitholders and the "**Pro Forma Financial Information of the Enlarged Group**" (Note 10 and note 11 of unaudited pro forma consolidated statement of financial position and profit or loss and other comprehensive income of the Enlarged Group, respectively) as set out in the Appendix 3 to the Circular:

(i) Financial Year ended 31 December 2012

The table below sets forth the pro forma financial effects of the Acquisition and the Unit Placement for the financial year ended 31 December 2012:

	<u>Actual</u>	<u>After the Acquisition and the Unit Placement</u>
<i>As if the Acquisition and the Unit Placement were completed on 1 January 2012, and Fortune REIT held and operated the Kingswood Ginza Property through to 31 December 2012</i>		
DPU (HK cents)	32.35	33.69
<i>As if the Acquisition and the Unit Placement were completed on 31 December 2012</i>		
NAV per Unit (HK\$)	8.81	8.50
Capitalisation (HK\$ million)	19,848	25,804
NAV (HK\$ million)	14,978	15,744

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

(ii) For the six months ended 30 June 2013

The table below sets forth the pro forma financial effects of the Acquisition and the Unit Placement for the six months ended 30 June 2013:

	Actual	After the Acquisition and the Unit Placement
<i>As if the Acquisition and the Unit Placement were completed on 1 January 2013, and Fortune REIT held and operated the Kingswood Ginza Property through to 30 June 2013</i>		
DPU (HK cents)	18.00	18.84
<i>As if the Acquisition and the Unit Placement were completed on 30 June 2013</i>		
NAV per Unit (HK\$)	10.01	9.60
Capitalisation (HK\$ million)	21,826	27,666
NAV (HK\$ million)	17,058	17,824

We noted that the DPU and NAV increased after the Acquisition and the Unit Placement.

Based on the financing structure as described in section 4.1 of the Letter to the Unitholders headed “**Overview**” and the estimated fees and charges incurred in relation to the Transaction, the Gearing Ratio / Aggregate Leverage of Fortune REIT will increase from 20.9% (as at 30 June 2013) to approximately 34.0% (immediately following the Completion and the Unit Placement). Upon Completion, the Gearing Ratio and Aggregate Leverage of Fortune REIT will be within the borrowing limits under the Singapore Property Funds Appendix and the REIT Code, which currently limit: (a) the Aggregate Leverage to 35% (and up to 60% if Fortune REIT obtains and discloses its credit rating from Fitch Inc., Moody’s or Standard & Poor’s); and (b) the Gearing Ratio to 45% of Fortune REIT’s Deposited Property, respectively.

According to the “**Pro Forma Financial Information of the Enlarged Group**” as set out in the Appendix 3 to the Circular, NAV per Unit decreased from HK\$10.01 to HK\$9.60 after the Unit Placement and the Acquisition. We understand that such decrease is mainly due to,

- (i) the issue price of HK\$6.82 per Unit pursuant to the Unit Placement with net proceeds of approximately HK\$947 million, represents a discount of 31.9% to the audited NAV per Unit value as of 30 June 2013 of HK\$10.01 as disclosed in the MOU Announcement;
- (ii) the HK\$58.49 million acquisition fee to the Manager in form of Units as set out in section 2.6.1 of the Letter to Unitholder headed “**Fees payable by Fortune REIT to the Manager in relation to the Acquisition**”; and
- (iii) the deferred tax of approximately HK\$125.1 million being excluded in the Consideration as disclosed in section 2.4.2 of the Letter to Unitholder headed “**Consideration**”.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

Taking into account the reasons for and benefits of the Acquisition, and we also note that on the annual general meeting of Fortune REIT held on 19 April 2013, the resolution to authorise the Manager to issue Units and to make or grant convertible instruments was approved by the Unitholders.

Based on the above, the financial effects of the Transaction and the Unit Placement on Fortune REIT are generally reasonable.

For further details on the Pro Forma Financial Information of the Enlarged Group, please refer to Appendix 3 of the Circular.

7. Retail market outlook

We note that the Manager has commissioned Savills (Hong Kong) Limited to prepare the Market Consultant's Report (as set out in Appendix 5 to the Circular) in respect of the recent development of the Hong Kong retail market, particularly:

(i) Growth of the Hong Kong retail market

With the uncertainty in both the global and Chinese economies in 2012, the Hong Kong retail sales value still had a moderate year-on-year growth of 9.8%. The growth accelerated to 15.5% year-to-year from January to April 2013 mainly due to revising luxury spending by mainland tourists and local spending on consumer goods.

In 2012, overnight tourist expenditure on shopping continued to increase by 11.9%, reaching HK\$110.7 billion and Market Consultant believes that mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years.

(ii) Increase in mainland China visitors

As a result of increased mainland Chinese visitor arrivals, total visitor arrivals in Hong Kong increased by 213% from 2003 to 2012 and stood at 48.6 million at the end of 2012, visitor arrivals from mainland China increased from 8.5 million to 34.9 million, a 312% rise since the implementation of the Individual Visit Scheme (the "IVS") during the same period.

According to the Hong Kong Tourism Board, mainland Chinese residents made more than 23.1 million trips to Hong Kong under the IVS in 2012, an increase of 3.2 times since 2005, and these visitors accounted for 66.3% of all mainland visitors or 47.6% of total visitors.

(iii) Increase in retail rents and prices trend

From 2003 to 2011, private retail rents increased by approximately 55% mainly due to (i) the implementation of the IVS; and (ii) the rebound in the local economy.

The tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rental rates, with the latter growing by 12.5% in 2012. The first four months of 2013 saw a further 2.1% growth in private retail rents.

From 2003 to 2012, private retail prices rose by more than 395% and yield compression became an obstacle for most investors looking for investment properties. Following a rise of another 3.3% in the first two months of 2013, private retail prices declined by 0.6% in March before stabilising in April in the face of a slowing leasing market and more government restrictive measures.

(iv) Expansion of international brands to non-core retail market

As mainland Chinese traffic spills over into areas along the East Rail, international retailers are expanding towards non-core retail districts, thus, driving up retail demand and thus retail rental rates in these regions.

Besides a more resilient rental performance during market downturns, non-core shopping centres are also proving increasingly popular among international retailers. In light of the fierce competition among international brands for prime spaces in core areas or traditional shopping districts, namely Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially those seeing increasing mainland footfall. Shopping centre transactions in Hong Kong have been limited over the past five years as many shopping centres in prime locations, regardless of whether they are core or non-core retail areas, are tightly held by their developers and only a handful are generally available for sale.

We note that the Market Consultant's Report contains the following messages: (a) mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years; (b) the performance of the retail sector is no longer confined to core areas but has spread to non-core locations; and (c) such performance is well supported by both local consumption and visitor spending, both of which look set to remain healthy in the near future.

8. Other relevant considerations

8.1. Management strategy for the Kingswood Ginza Property

We note that should the Acquisition be completed, the Manager intends to continue with the same key objectives and principal investment strategies for Fortune REIT, which are described in the section headed "**Strategy**" in the Introduction Listing Document, certain aspects of which are set out under section 5.5 of the Letter to the Unitholders headed "**Management Strategy for the Properties**". We wish to highlight that as at the Latest Practicable Date, the Manager had no specific plans for renovation or improvement of the Kingswood Ginza Property and the Manager may or may not carry out such activities depending on the needs of the Kingswood Ginza Property as the Manager considers appropriate.

8.2. Competition

According to the Market Consultant's Report, the Kingswood Ginza Property is the largest shopping centre within its primary and secondary catchment in the Yuen Long District and there is no direct competition when considering its location, size, catchment profile and trade and tenant mix. The Kingswood Ginza Property is located in the heart of Tin Shui Wai new town, a predominantly residential area with ample supporting commercial/public facilities and the Wetland Park which acts as a tourist

draw. According to the Market Consultant's Report, with no near-term plans for large-scale shopping centre developments in the vicinity, the relatively strong position and competitive edge of Kingswood Ginza Property can be retained.

The Market Consultant has analysed the competitive conditions of the Kingswood Ginza Property, please refer to the Market Consultant's Report in Appendix 5 to the Circular for further details.

8.3. General risks attached to investments in real estate and the Kingswood Ginza Property

Unitholders should be aware that there are general risks attached to investments in real estate and the Kingswood Ginza Property and there are risk to leveraging and limitations on Fortune REIT's ability to leverage. Unitholders should read section 7 of the Letter to the Unitholders headed "**Risk Factors**". We wish to highlight that the periodic revaluation of the Kingswood Ginza Property may fluctuate significantly upwards or downwards as a result of many factors such as occupancy rates, rental rates and/or operating expenses, which would eventually create non-cash impact to the financial performance of Fortune REIT after the Completion.

8.4. Non-conformity of car park layout plans

The Letter to the Unitholders discussed the non-conformity of the car park layout plans pursuant to condition (34)(c) of the Government Grant, whose details have been disclosed under section 2.4.7 of the Letter to the Unitholders headed "**Covenants and Indemnities**", whereby, among others, the Manager considers the financial impact of such non-conformity (which essentially relates to two car parking spaces and the attachment of incorrect car park layout plans to the DMC, according to the Manager) not material and the Manager does not foresee such nonconformity will cause material adverse impact on Fortune REIT, after taking into account a legal advice, and indemnities available from the Vendor under the Share Purchase Agreement, among others. We have considered this matter in arriving at our advice as set out in the section headed "**Recommendation**" of this letter.

8.5. Trustee has discretion

Unitholders should note that given that the Acquisition is dependent on the satisfaction of certain Conditions, including the obtaining of financing for the Acquisition on such terms as are satisfactory to the Trustee, the Trustee has the discretion, after consultation with and taking instructions from the Manager, to not proceed with the Acquisition if any of the Conditions shall not have been fulfilled prior to the Long Stop Date.

9. New Continuing Connected Party Transactions

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

As noted in section 2.4.11 of the Letter to the Unitholders headed "**Deed of Ratification and Accession**", the Nominee, the Trustee, the Manager and the Property Manager will enter into the Deed of Ratification and Accession. The operation,

maintenance, management and marketing of the Kingswood Ginza Property will be managed by the Property Manager, which is an indirect wholly-owned subsidiary of Cheung Kong, subject to the overall management by the Manager pursuant to and in accordance with the terms of the Property Management Agreement.

We note that the Manager applied to the SFC for a modification and extension of the Existing CKH/Manager CPT Waiver from strict compliance with the disclosure and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the New Continuing Connected Party Transactions, subject to Completion taking place, and subject to various conditions under the waiver. For further details regarding the Waiver Modification and Extension, please refer to section 9.3 of the Letter to the Unitholders headed "**Reasons for Modification of the Existing CKH/Manager CPT Waiver**". We also note that the Board has provided an opinion on the Modified and Extended CPT Waiver and the New Continuing Connected Party Transactions in section 9.9 of the Letter to the Unitholders.

9.1. Existing Waivers in respect of Chapter 8 of the REIT Code

9.1.1. Continuing Transactions with the CKH Group and/or the Manager Group

We also note that the SFC granted a waiver (being the "**Existing CKH/Manager CPT Waiver**") in 2012, subject to certain terms and conditions, from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions that are summarised in the Belvedere Square and Provident Square Circular (the "**Existing Continuing Connected Party Transactions**"). Such waiver is due to expire on 31 December 2014 (the "**Existing CPT Waiver Expiry Date**").

9.1.2. Continuing Transactions with the Trustee Connected Persons

We note that the SFC also granted a waiver (being the "**Existing Trustee CPT Waiver**") in 2010, subject to certain terms and conditions, from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of certain continuing connected party transactions between the Fortune REIT Group on the one hand, and the Trustee Connected Persons on the other hand. The Manager has confirmed that as at the date of this letter, such waiver remains in place. However, as the Existing Trustee CPT Waiver is not subject to an annual cap or time limitation, no new waiver packages in respect of the subject transactions are required to be proposed to Unitholders. For further details of the waiver and the conditions that apply to it, please see section 17.2.2 of the Introduction Listing Document.

9.2. *New Continuing Connected Party Transactions*

We note that as a result of the Acquisition, there will be additional continuing connected party transactions with the CKH Group and/or the Manager Group in respect of the Kingswood Ginza Property (the **"Additional Continuing Connected Party Transactions"** and together with Existing Continuing Connected Party Transactions, the **"New Continuing Connected Party Transactions"**). The New Continuing Connected Party Transactions are connected party transactions entered into or to be entered into between the Fortune REIT Group on the one hand, and the CKH Group and/or the Manager Group (as the case may be) on the other hand. In respect of the waivers to be sought in respect of Chapter 8 of the REIT Code, the two categories of the New Continuing Connected Party Transactions are as follows:

9.2.1. *Revenue Transactions*

As part of the Fortune REIT Group's ordinary and usual course of business, Property Companies (including, upon Completion, the Target Company), are either already a party to, or may from time to time enter into, leases or licences with members of the CKH Group or members of the Manager Group (the **"Manager Group Leases/Licences"** and together with the CKH Group Leases/Licences, the **"CKH/Manager Group Leases/Licences"**) in respect of its properties, please refer to section 9.4.1 of the Letter to the Unitholders **"Revenue Transactions"** for further details.

The scope of the CKH/Manager Group Leases/Licences in respect of the Kingswood Ginza Property is the same as the Kingswood CKH Interested Persons Tenancy and Licence Agreements, and details of such agreements are set out in Appendix 8 headed **"Kingswood CKH Interested Persons Tenancy and Licence Agreements"** to the Circular. Please refer to 2012 Annual Report on the CKH/Manager Group Leases/Licences in respect of the Existing Properties as at the date of the report for further details. We understand from the Manager, these revenue transactions are effectively the rent and rental related income Fortune REIT's Group received from the CKH Group and the Manager Group.

We further note that in addition to contributing to the income of the Existing Properties, the tenants at the Existing Properties who are Connected Persons are, by and large, very well-known major retailers in Hong Kong, such as a leading supermarket chain and one of the largest personal care retailers in Hong Kong. We understand from the Manager that the presence of such tenants enhances shopper traffic at the Existing Properties thereby improving the attractiveness of the Existing Properties.

The Manager is of the view that all the CKH/Manager Group Leases/Licences subsisting are on normal arm's length commercial terms and at market levels. Based on the above and taking into account the internal control procedures established by the Manager to safeguard the interests of Fortune REIT or the Independent Unitholders, we are of the view that the Existing Interested Person Transactions and Kingswood CKH Interested Persons Tenancy and Licence Agreements as set out in Appendix 6 and Appendix 8 to the Circular respectively, were entered into on normal commercial terms and at prevailing market levels.

9.2.2. Expenditure Transactions

Fortune REIT and members of the CKH Group have entered into various continuing connected party transactions relating to property management, estate management and other operational transactions in respect of Fortune REIT and its assets and operations. This has resulted and may in the future result in expenditures being paid by Fortune REIT to the CKH Group, details of which are described in section 9.4.2 of the Letter to the Unitholders headed “**Expenditure Transactions**”. We understand from the Manager that these Expenditure Transactions are mainly property management fees payable by Fortune REIT to CKH Group.

We further note from the Introduction Listing Document that the above transactions have been subsisting since the listing of Fortune REIT on the Hong Kong Stock Exchange in April 2010. For additional information regarding the Existing CKH/Manager CPT Waiver, please see section 17.2.1 of the Introduction Listing Document.

Based on the above, we are of the view that entering into of the Additional Continuing Connected Party Transactions is in the ordinary course of Fortune REIT’s business as it is in line with Fortune REIT’s investment policy, and on normal commercial terms and at prevailing market levels.

9.3. Reasons for Modification of the Existing CKH/Manager CPT Waiver

The reasons for the modification and extension of the Existing CKH/Manager CPT are set out in section 9.3 of the Letter to the Unitholders headed “**Reasons for Modification of the Existing CKH/Manager CPT Waiver**”. We wish to highlight the following:

- (i) Fortune REIT has already obtained the Existing CKH/Manager CPT Waiver being a waiver from the SFC in relation to the Existing Continuing Connected Party Transactions between the Fortune REIT Group on the one hand and the CKH Group and/or the Manager Group on the other hand;
- (ii) In respect of the Additional Continuing Connected Transactions, the nature of such transactions will be the same as the Existing Continuing Connected Party Transactions in respect of which the Existing CKH/Manager CPT Waiver was granted. The Acquisition will accordingly increase the scale of the continuing connected party transactions with the CKH Group and/or the Manager Group;
- (iii) The Existing CKH/Manager CPT Waiver is being proposed as the Manager considers that it will be unduly burdensome and not in the interests of the Unitholders for Fortune REIT to be subject to strict compliance with the requirements under Chapter 8 of the REIT Code with respect to such transactions in relation to the Kingswood Ginza Property, on each and every occasion when they arise; and
- (iv) The Existing CKH/Manager CPT Waiver is subject to Completion and the approval of the SFC. In the event that the EGM Resolution is not approved by the Independent Unitholders, the Existing CKH/Manager CPT Waiver will continue to apply for the remainder of its duration.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

9.4. Proposed Caps

We set out below the annual monetary limits under Existing CKH/Manager CPT Waiver and compare these against the annual monetary limits of the New Continuing Connected Transaction under the waiver modification and extension for the three years ending 31 December 2015 (being the “Proposed Caps”):

Categories of New Continuing Connected Party Transactions	Connected Person	Existing annual monetary limits under the Existing CKH/Manager CPT Waiver (HK\$'000)			Proposed annual monetary limits under the Waiver Modification and Extension (HK\$'000)		
		For the year ending 31 December			For the year ending 31 December		
		2012	2013	2014	2013	2014	2015
I. Revenue							
Leasing/licencing transactions	CKH Group	275,000	344,000	430,000	360,000	469,000	563,000
Percentage change year-on-year.		63.7%	25.1%	25.0%	4.7% ⁽²⁾	9.1% ⁽²⁾	20.0%
Utilisation rate.		60.4% ^{(3) (4)}	51.5% ^{(3) (4)}	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾
Leasing/licencing transactions	Manager Group	11,500	13,200	15,200	13,200	15,200	15,200
Percentage change year-on-year.		19.8%	14.8% ⁽³⁾	15.2%	– ⁽²⁾	– ⁽²⁾	–
Utilisation rate.		1.9% ^{(3) (4)}	4.3% ^{(3) (4)}	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾
II. Expenditure							
Property management arrangements, third party services and other operational transactions	CKH Group	101,000	136,000	183,000	155,000	229,000	276,000
Percentage change year-on-year.		94.2%	34.7%	34.6%	14.0% ⁽²⁾	25.1% ⁽²⁾	20.5%
Utilisation rate.		48.2% ^{(3) (4)}	38.8% ^{(3) (4)}	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾	NA ⁽¹⁾

Notes:

- (1) “NA” denotes information not applicable or not available.
- (2) These percentages represent the amount of increases in annual caps under the Waiver Modification and Extension as compared to the Existing CKH/Manager CPT Waiver (instead of year-on-year increase).
- (3) The utilisation rates are provided by the management of the Manager and represent actual utilisation rates for the year ended 31 December 2012 in respect of Existing Properties and utilisation rate for the year ending 31 December 2013 (on an annualised basis based on transaction amounts for the six months ended 30 June 2013) in respect of Existing Properties.
- (4) Refers to existing continuing connected transactions of the Existing Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

We have obtained and reviewed, including among others, rent roll, the independent valuation certificates, the standard tenancy agreement template and property management agreement provided by the Manager. We have discussed with the Manager in respect of the New Continuing Connected Party Transactions and the Manager has confirmed to us that the standard tenancy agreement template for Leases/Licences transaction in respect of the New Continuing Connected Party Transactions are on terms which conform to the standard tenancy agreement provided to us. According to the Letter to the Unitholders and information provided by the Manager, we note the following:

I. Revenue

(i) In respect of CKH Group Leases/Licences

The proposed annual caps for the year ending 31 December 2013 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition (i.e. including the CKH Group Leases/Licences that would arise in connection with the Acquisition).

The approximately 5% increase of the annual cap for the financial year ending 31 December 2013 from HK\$344 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$360 million and the approximately 9% increase of the annual cap for the financial year ending 31 December 2014 from HK\$430 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$469 million.

Based on the above, we considered that the increase in the annual cap for the financial year ending 31 December 2013 and 2014 is mainly due to the new CKH Group Leases/Licences to be taken up at the Kingswood Ginza Property upon and after Completion is reasonable.

As advised by the Manager, the proposed annual cap for the financial years ending 31 December 2015 of HK\$563 million (of which includes HK\$47 million of new CKH Group Leases/Licences in respect of the Kingswood Ginza Property) has been determined based on the existing leases and by applying a 20% increment to the figure proposed for the immediately preceding financial year, with some minor rounding up of figures, after taking into account, the change in rental or other market conditions, the inflation and a buffer of 5 percentage point for contingencies, for instance, the possible increase in the number of premises under the CKH Group Leases/Licences during the New CPT Waiver Period. Based on the above, we consider a 20% increment to be reasonable.

(ii) In respect of the Manager Group Leases/Licences

According to the Letter to the Unitholders, (i) the Manager Group currently has one lease of premises at the portfolio of properties of Fortune REIT after Completion; and (ii) it is possible that more leases/licences may be entered into at some time during the New CPT Waiver Period between Fortune REIT and the Manager Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

The proposed annual caps for the financial years ending 31 December 2013 and 31 December 2014 are the same as the existing annual caps under the Existing CKH/Manager CPT Waiver. The proposed annual caps for the financial year ending 31 December 2015 are equivalent to the annual cap of HK\$15.2 million for the financial year ending 31 December 2014. We set out below proposed annual monetary limits under the Waiver Modification and Extension for the three years ending 31 December 2015 in respect of the Manager Group Leases/Licences and compare these against latest published financials of Fortune REIT as disclosed in the 2013 Interim Report and 2012 Annual Report:

	For the year ending 31 December		
	2013	2014	2015
As a percentage to revenue of HK\$1,113.7 million for the year ended 31 December 2012.....	1.2%	1.4%	1.4%
As a percentage to the profit for the year, before transactions with Unitholders of HK\$2,238.4 million for the year ended 31 December 2012	0.6%	0.7%	0.7%
As a percentage to net assets attributable of HK\$17,058.5 million as at 30 June 2013.....	0.08%	0.09%	0.09%

The utilisation rate of the previously approved annual caps for the leasing/licencing transactions are fairly low. As discussed with the Manager, (i) we understand that the Manager Group has not yet entered into any leasing/licencing transaction with Kingswood Ginza Property; and (ii) it is expected that the approval on the Connected Party Transactions for the leasing/licencing transactions with the Manager Group and the relevant Proposed Caps are required in order to provide the flexibility and an appropriate buffer for contingencies when such transactions are entered into in the coming three years. According to the Letter to the Unitholders, adoption of the above buffer can provide contingency to accommodate possible fluctuations resulted from any changes in rental or other market conditions given the high volatility of rentals of Hong Kong property.

Based on the above, we considered that the proposed annual caps in respect of the Manager Group Leases/Licenses for the financial year ending 31 December 2013, 2014 and 2015 to be reasonable.

II. Expenditure

In respect of property management arrangements, third party services and other operational transactions

The proposed annual caps for the financial year ending 31 December 2013 have been determined with general reference to the historical data for the last three years, and based on the anticipated aggregate value of such transactions during the relevant financial years subsequent to the completion of the Acquisition.

The approximately 14% increase of the annual caps for the financial year ending 31 December 2013 from HK\$136 million (pursuant to the Existing CKH/Manager CPT Waiver) to HK\$155 million, and the approximately 25.1% increase of the annual caps for the financial year ending 31 December 2014 from HK\$183 million (pursuant to the Existing CKH/Manager CPT Waiver) to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

HK\$229 million, has mainly taking into account the expected new operating expenses from the Kingswood Ginza Property of HK\$19 million and HK\$46 million for the financial year ending 31 December 2013 and 2014 respectively upon completion of the Acquisition. Based on the above, we considered the increment to the annual cap in 2013 to 2014 reasonable.

As advised by the Manager, the proposed annual cap for the financial year ending 31 December 2015 of HK\$276 million, of which include HK\$56 million of new operating expenses from the Kingswood Ginza Property, has been determined by applying a 20% increment to the annual cap proposed for the preceding financial year, with some minor rounding up of figures. Such increment has been applied after taking into account: (i) the general economic environment in Hong Kong including inflation, possible increase in costs and wages, and specifically, the anticipated increase in management expenses; and (ii) the resulting anticipated increase in the property management fee and marketing service fees payable by Fortune REIT to the Property Manager, during the New CPT Waiver Period and contingencies. Based on the above, we considered the 20% increment from the annual cap in 2014 to 2015 reasonable.

We note that a fee of 3% per annum of the Gross Property Revenue charged by the Property Manager for the provision of property and lease management services under the Property Management Agreement (for both Kingswood Ginza Property and the Existing Properties). According to the Hong Kong Stock Exchange List of REITs on the Main Board, there are 7 REITs (excluding Fortune REIT) listed on the Hong Kong Stock Exchange as at 15 August 2013 where the property management fees are applicable. More than half of these REITs are charged with a property management fee of 3% per annum of its gross property revenue by its property manager. Based on the above, we consider that the fees charged by the Property Manager to be in line with market.

We also note from the Market Consultant's Report that the retail rental of Kingswood Ginza Property is expected to grow at approximately 10% to 15% per annum from 2013 to 2015.

We also note that (i) according to the Letter to the Unitholders, the Manager undertakes it will continue to comply with the waiver conditions of the Existing CKH/Manager CPT Waiver, comprises among others, an independent valuation will be conducted for each of such leasing/licencing transactions except where they are conducted on standard or published rates; and (ii) the review measures which safeguard the interest of the Unitholders by the auditors and the independent non-executive Directors as set out in sections 9.7.6 and 9.7.7 of the Letter to the Unitholders headed "**Auditors' Review procedures**" and "**Review by the Independent Non-Executive Directors of the Manager**" respectively. With the above internal/review procedures in place, we are of the view that entering into of the proposed Connected Party Transactions and the Proposed Caps and the basis of arriving at the same in respect of the revenue or expenditure transactions with the CKH Group/Manager Group are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of the Fortune REIT, Independent Unitholders, as well as the Unitholders as a whole.

9.5. Waiver Extension

As noted above, the Existing CKH/Manager CPT Waiver will expire on 31 December 2014. It is proposed that Existing CPT Waiver Expiry Date be extended, so that the waiver will apply for the three financial years ending 31 December 2015. The Waiver Extension shall be effective from the Completion Date.

9.6. Waiver Conditions

The Manager undertakes that it will continue to comply with the waiver conditions of the Existing CKH/Manager CPT Waiver, subject to the proposed revisions to the annual monetary limits and waiver expiry date described above. The waiver conditions of the Modified and Extended CPT Waiver will be as follows:

9.6.1. The EGM Resolution having been approved by the Independent Unitholders and adopted as set out in the EGM Notice, without material amendments thereto and Completion.

9.6.2. The Modified and Extended CPT Waiver will supersede the Existing CKH/Manager Waiver and will commence as from the Completion Date and continues until 31 December 2015.

9.6.3. Modification or Extension

The Modified and Extended CPT Waiver may be extended beyond the New CPT Waiver Period, and/or the conditions of the Modified and Extended CPT Waiver may be modified from time to time, provided that:

- (a) Independent Unitholders' approval – the due approval of Unitholders other than those who have a material interest in the relevant transactions, within the meaning of 8.11 of the REIT Code is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (b) Disclosure – disclosure of details of the proposed extension and/ or amendment (as the case may be) will be made by way of an announcement by the Manager of such proposal, and a circular and notice will be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Extension period – any extension of the period of the Modified and Extended CPT Waiver shall, on each occasion of such extension, be for a period which will expire not later than the third full financial year-end date of Fortune REIT after the date on which the approval referred to in (a) is obtained.

For the avoidance of doubt, any material change to the transactions covered under the Modified and Extended CPT Waiver (including without limitation the scope or nature of the transactions) in the application for Waiver Modification and Extension dated 28 August 2013 provided by the Manager based on which the waiver is sought and granted must be approved by the Independent Unitholders as referred to in (a) above and details of the proposed changes shall be disclosed in the manner as referred to in (b) above.

9.6.4. Annual caps

In any relevant financial year, the annual value of the New Continuing Connected Party Transactions shall not exceed the respective annual monetary limits stated in section 9.5 of the Letter to the Unitholders headed “**Proposed Caps**”.

9.6.5. Disclosure in interim and annual reports

The Manager shall comply with all requirements under paragraph 8.14 of the REIT Code (i) where there is any material change to the terms of the relevant connected party transactions; (ii) where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Independent Unitholders’ approval; or (iii) details of the New Continuing Connected Party Transactions shall be disclosed in Fortune REIT’s interim and annual reports.

We also note in 2012 Annual Report that:

- (a) the independent non-executive Directors had given the confirmation as described in section 9.6.7. below;
- (b) Messrs. Deloitte Touche Tohmatsu, auditors of Fortune REIT, was engaged to report on Fortune REIT Group’s continuing connected transactions (in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditors’ Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants), and the auditors had issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions on leasing/licencing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services as disclosed by Fortune REIT Group in its annual report; and
- (c) the Board opined, with the concurrence of the Audit Committee, that there were adequate internal controls and risk management systems in place within the Group in addressing material financial, operational, compliance and information technology controls risks in its current business environment.

9.6.6. Review by auditors

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

- (a) have received the approval of the Board (including its independent non-executive Directors);

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

- (b) are in accordance with the pricing policies of Fortune REIT where applicable;
- (c) have been entered into in accordance with the terms of the agreements (if any) governing the transactions; and
- (d) the total value in respect of which has not exceeded the respective annual cap amount (where applicable).

9.6.7. Review by independent non-executive directors of the Manager

The independent non-executive Directors will review the relevant continuing connected party transactions (including, among others, the New continuing Connected Party Transactions) annually and confirm in Fortune REIT's annual report for the relevant financial year that such transactions have been entered into:

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

9.6.8. Auditors' access to books and records

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

9.6.9. Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in sections 9.6.6. and 9.6.7. above, respectively.

9.6.10. Subsequent Increases in Annual Caps with Independent Unitholders' Approval

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

- (a) Independent Unitholders' approval – the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

- (b) Disclosure – disclosure of details of the proposal to increase the relevant Proposed Caps shall be made by way of an announcement by the Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Other compliance requirements and all the waiver terms and conditions above shall continue to apply to the relevant transactions, save that the relevant increased annual cap amounts will apply.

In arriving at our opinion, we have considered the Waiver Conditions above and also the internal control procedures as set out in the Introduction Listing Document. The Manager has established an internal control system intended to ensure that connected party transactions between Fortune REIT and its Connected Persons are (i) carried out at arm's length on normal commercial terms and in the interests of the Independent Unitholders and Unitholders as a whole; and (ii) monitored and that they are undertaken on terms in compliance with the REIT Code. These procedures include the review and approval of such transactions by the Audit Committee. Those transactions reported comply with the requirements of Chapter 9 of the Singapore Listing Manual.

9.7. Implication of Singapore Listing Manual

The aggregate value as well as the details of Existing Interested Person Transactions conducted in the current financial year and the Kingswood CKH Interested Persons Tenancy and Licence Agreements have been disclosed in **Appendix 6** and **Appendix 8** of the Circular.

We note from the circular that these Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements have been subject to the internal control procedures established by the Manager to ensure that such transactions are undertaken on normal commercial terms and are not prejudicial to the interests of Fortune REIT or its minority Unitholders. These procedures include the review and approval of such transactions by the Audit Committee.

We note that for the Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements in **Appendix 6** and **Appendix 8**, independent property consultants that have been commissioned by Fortune REIT certified that these Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements are at market level. The Manager is of the view that the terms of agreement of the Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements are on normal arm's length commercial terms and at market levels.

9.8. Opinions of the Independent Property Valuers

With respect to the opinion of the Independent Property Valuers, we wish to highlight that:

- (i) According to the Letter of the Unitholders, JLL, an Independent Property Valuer appointed by the Trustee and Fortune REIT's current principal valuer has confirmed that the rentals of the subject lettings in respect of the Kingswood Ginza Property which form part of the New Continuing Connected Party Transactions were at or above market levels as of their

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

respective tenancy agreement dates and other commercial terms in the tenancies such as tenure, rental deposits and break clauses are on normal commercial terms;

- (ii) as disclosed in the Belvedere Square and Provident Square Circular, Knight Frank Petty Limited, Fortune REIT's then principal valuer, confirmed that the rentals of the then subject lettings in respect of the Belvedere Garden Property and the Provident Centre Property (each term as defined in the Belvedere Square and Provident Square Circular), which form part of the Existing Continuing Connected Party Transactions, were at or above market levels as of their respective tenancy agreement dates and other commercial terms in the tenancies such as tenure, rental deposits and break clauses are on normal commercial terms; and
- (iii) as disclosed in the Introduction Listing Document, Savills, Fortune REIT's then principal valuer, confirmed that the rental/licence fees in respect of the then CKH Group Leases/Licences and the then Manager Group Leases/Licences of the Existing Properties (other than the Belvedere Garden Property and the Provident Centre Property which were not held by Fortune REIT at the time), which form part of the Existing Continuing Connected Party Transactions, were at market levels as at their respective agreement dates, and that the other commercial terms in the lease or licences such as tenure, rental deposits and break clauses were on normal commercial terms; and
- (iv) in accordance with the Existing CKH/Manager CPT Waiver, Fortune REIT also obtained an independent valuation from the incumbent principal valuer being Knight Frank or Savills for other subject lettings in respect of the Existing Properties entered into after the Introduction Listing Document (with the exception of subject lettings entered into on standard rates, which did not require such confirmation under the conditions of the Existing CKH/Manager CPT Waiver).

Taking into account the abovementioned factors, for the purpose of the REIT Code, we are of the view that the Waiver Modification and Extension and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and that each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition): (a) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (b) has been entered into at arm's length and on normal commercial terms; and (c) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

10. Approval by Independent Unitholders

In approving the Transaction, Independent Unitholders are deemed to have approved the Existing Interested Person Transactions (as detailed in Appendix 6 headed "**Existing Interested Person Transactions**" of the Circular) and the other transactions contemplated under, associated with and/or related to the Transaction, including the assumption of the Kingswood CKH Interested Persons Tenancy and Licence Agreements (as detailed in Appendix 8 headed "**Kingswood CKH Interested Persons Tenancy and Licence Agreements**"

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

to this Circular) and the Deed of Ratification and Accession, pursuant to which the Kingswood Ginza Property will be included as part of the properties to be managed by the Property Manager, upon Completion. These transactions and agreements are, therefore, not subject to Rules 905 and 906 of the Singapore Listing Manual (which require Fortune REIT to make an announcement or obtain the approval of Independent Unitholders depending on the materiality of the Interested Person Transactions) insofar as there are no subsequent changes to the rental, rates and/or basis of the fees charged thereunder which will adversely affect Fortune REIT. Future renewal or extension of the agreements will be subject to Rules 905 and 906 of the Singapore Listing Manual.

RECOMMENDATION

Based on the considerations set out above in this letter and subject to the qualifications and assumptions herein, we are of the view that:

- (i) (a) the Transaction is on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders in accordance with the Singapore Listing Manual; and (b) the Transaction, which consists of the terms of the Acquisition, including the Consideration, is in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT, has been entered into at arm's length and on normal commercial terms, is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole in accordance with the REIT Code;
- (ii) for the purpose of the Singapore Listing Manual, the Existing Interested Person Transactions and the Kingswood CKH Interested Persons Tenancy and Licence Agreements are on normal commercial terms and not prejudicial to the interests of Fortune REIT and the Independent Unitholders; and
- (iii) for the purpose of the REIT Code, the Waiver Modification and Extension, and the basis for the Waiver Modification and Extension (including the Proposed Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the New Continuing Connected Party Transactions subsisting as at the Latest Practicable Date (including the Additional Continuing Connected Party Transactions to be assumed by Fortune REIT as a result of the Acquisition), (a) has been entered into in the ordinary and usual course of business of Fortune REIT and is consistent with the investment objectives and strategy of Fortune REIT; (b) has been entered into at arm's length and on normal commercial terms; and (c) is fair and reasonable and in the interests of Fortune REIT, the Independent Unitholders, as well as the Unitholders as a whole.

Accordingly, we advise the Independent Board Committee and Audit Committee (as appropriate) to recommend the Independent Unitholders to vote in favour of the EGM Resolution to be proposed at the EGM.

This opinion is addressed to the Independent Board Committee, the Audit Committee, the Independent Unitholders and the Trustee (as appropriate) for their sole benefit, in connection with and for the purpose of their consideration of the Transaction Matters Requiring Approval. Any statement or recommendation made by the Independent Board Committee and the Audit Committee in respect of the Transaction Matters Requiring Approval shall remain their sole responsibility. Our opinion does not and cannot take into

LETTER FROM THE INDEPENDENT FINANCIAL ADVISERS

account future circumstances, including market, economic, industry, monetary and other conditions after the Latest Practicable Date as these are factors beyond the ambit of our review.

This letter is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of

Maybank Kim Eng Securities Pte Ltd

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

Warren Hua
Head of Regional Advisory

Kim Eng Securities (Hong Kong) Limited

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

Cecil Ng
*Co-Head, Transaction Execution Group,
Greater China*

The financial information of Fortune REIT for the past three financial years has been published in the reports as follows:

- (1) the financial information of Fortune REIT for the year ended 31 December 2012 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2012 published on 15 March 2013, from pages 94 to 141;
- (2) the financial information of Fortune REIT for the year ended 31 December 2011 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2011 published on 14 March 2012, from pages 91 to 151;
- (3) the financial information of Fortune REIT for the year ended 31 December 2010 is disclosed in the annual report of Fortune REIT for the year ended 31 December 2010 published on 18 March 2011, from pages 80 to 133; and
- (4) the financial information of Fortune REIT for the six months ended 30 June 2013 is disclosed in the interim report of Fortune REIT for the six months ended 30 June 2013 published on 13 August 2013, from pages 28 to 95.

The annual reports of Fortune REIT for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 and the interim report of Fortune REIT for the six months ended 30 June 2013 have been published on the website of SGT-ST (www.sgx.com), the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the website of Fortune REIT (www.fortunereit.com).

The following is the text of a report, prepared for the purpose of inclusion in this Circular, from Deloitte Touche Tohmatsu, certified public accountants. The report relates to the consolidated financial information of the Target Company group for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, which (among other things) includes financial information in respect of assets and liabilities of the hotel and serviced suites that were subsequently transferred by the Target Company to a Target Company's fellow subsidiary on 26 July 2013 (see Note 27 of the report for details). As such assets and liabilities no longer form part of the Target Company, they will not be acquired by Fortune REIT pursuant to the Acquisition. Accordingly, Unitholders as well as prospective investors of Fortune REIT are advised to exercise caution when reviewing this Appendix and dealing in the Units.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

28 August 2013

The Directors
ARA Asset Management (Fortune) Limited
(as manager of Fortune Real Estate Investment Trust)
HSBC Institutional Trust Services (Singapore) Limited
(as trustee of Fortune Real Estate Investment Trust)

Dear Sirs,

We set out below our report on the consolidated financial information set out in Sections I to III (the "**Financial Information**") of Tin Shui Wai Development Limited (the "**Company**") and its subsidiary, Topview Development Limited (hereinafter collectively referred to as the "**Group**") for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 (hereinafter collectively referred to as the "**Relevant Periods**") for inclusion in the circular of Fortune Real Estate Investment Trust ("**Fortune REIT**") dated 28 August 2013 (the "**Circular**") in connection with the proposed acquisition by Fortune REIT of the Kingswood Ginza Property (the "**Property**") through the acquisition of a 100% of the issued share capital of the Company from Mightycity Company Limited (the "**Acquisition**").

Mightycity Company Limited is a subsidiary of Cheung Kong (Holdings) Limited ("**CKH**"), a significant unitholder of Fortune REIT.

As the date of this report, particulars of the Company's wholly owned subsidiary are as follows:

<u>Name of company</u>	<u>Place and date of incorporation</u>	<u>Issued and fully paid up ordinary share capital</u>	<u>Principal activities</u>
Topview Development Limited	Hong Kong 17 June 2011	1 share of HK\$1 each	Inactive

The audited statutory financial statements of the Company for each of the three years ended 31 December 2012 ("**Audited Statutory Financial Statements**") were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"). The statutory

financial statements of the Company for the years ended 31 December 2010 and 2011 were audited by Deloitte Touche Tohmatsu, and the statutory financial statements for the year ended 31 December 2012 were audited by PricewaterhouseCoopers.

The statutory financial statements of Topview Development Limited from date of incorporation to 31 December 2011 and for the year ended 31 December 2012 ("**Audited Statutory Financial Statements of Topview**") were prepared in accordance with HKFRS and audited by PricewaterhouseCoopers.

No audited financial statements have been prepared for the Company and its subsidiary for the six months ended 30 June 2013. However, for the purpose of this report, we have carried out audit procedures on each of the management accounts of the Company and its subsidiary (the "**Management Accounts**") for the six months ended 30 June 2013, which were prepared based upon HKFRS by the directors of the Company, in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

For the purpose of preparing this report, we have examined the Audited Statutory Financial Statements, the Audited Statutory Financial Statements of Topview and the Management Accounts of the Company and its subsidiary for the Relevant Periods ("**Underlying Financial Statements**"). Our examination was made in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information comprising the consolidated statements of profit or loss and other comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of the Group for the Relevant Periods and the consolidated statements of financial position of the Group and the Company as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, has been prepared based on the Underlying Financial Statements on the basis set out in Note 1 to Section I below after making such adjustments as we consider appropriate.

The Underlying Financial Statements are the responsibility of the directors who approved their issuance. The Manager of Fortune REIT is responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements together with the notes thereon, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis set out in Note 1 to Section I, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013 and of the profits and cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six months ended 30 June 2012 together with the notes thereon (the "**30 June 2012 Financial Information**") have been prepared based on the management accounts for the same period (the "**30 June 2012 Management Accounts**"), which were prepared solely for the purpose of this report, on the basis set out in Note 1 to Section I below after making such adjustments as we consider appropriate. We have reviewed the 30 June 2012 Management Accounts in accordance with the Hong Kong Standard on Review Engagements 2400 "Engagement to Review Financial Statements" issued by the HKICPA.

Our review of the 30 June 2012 Management Accounts consists of making enquiries, primarily of persons responsible for financial and accounting matters of the Group, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2012 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2012 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

(I) FINANCIAL INFORMATION**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Year ended 31 December			Six months ended 30 June	
		2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2012 HK\$'000 (unaudited)	2013 HK\$'000
Revenue	6	386,985	443,741	544,122	245,416	278,246
Property and hotel operating expenses . . .	7	(191,874)	(211,483)	(232,255)	(107,537)	(121,387)
Net rental and hotel operating income		195,111	232,258	311,867	137,879	156,859
Other income		714	594	578	287	18
Change in fair value of investment properties .		136,000	498,000	218,946	97,000	2,749,000
Finance costs	8	(98,501)	(99,707)	(99,785)	(49,565)	(48,708)
Profit before taxation . . .		233,324	631,145	431,606	185,601	2,857,169
Income tax expense	9	(17,726)	(23,638)	(37,009)	(15,440)	(18,670)
Profit and total comprehensive income for the year/period . . .		<u>215,598</u>	<u>607,507</u>	<u>394,597</u>	<u>170,161</u>	<u>2,838,499</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December			At 30 June
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Investment properties	12	1,940,000	2,438,000	2,663,000	5,412,000
Completed properties for sale	13	47,289	47,289	47,289	47,289
Property, plant and equipment	15	<u>1,157,331</u>	<u>1,126,050</u>	<u>1,096,021</u>	<u>1,080,025</u>
		<u>3,144,620</u>	<u>3,611,339</u>	<u>3,806,310</u>	<u>6,539,314</u>
Current assets					
Other stock		348	473	420	333
Trade and other receivables	16	19,215	19,826	18,992	18,652
Bank balances and cash	17	<u>4,882</u>	<u>93,488</u>	<u>329,150</u>	<u>231,063</u>
		<u>24,445</u>	<u>113,787</u>	<u>348,562</u>	<u>250,048</u>
Total assets		<u>3,169,065</u>	<u>3,725,126</u>	<u>4,154,872</u>	<u>6,789,362</u>
Current liabilities					
Trade and other payables	18	(104,486)	(134,459)	(147,949)	(158,076)
Amount due to immediate holding company	26(d)	(170,711)	(120,861)	(155,198)	(54,902)
Amount due to a related company	26(d)	(1,818)	(2,101)	(3,124)	(1,379)
Amount due to a fellow subsidiary	26(d)	(180,053)	(134,316)	(106,587)	(98,322)
Loan from a fellow subsidiary	20	(1,964,461)	(1,964,461)	(1,964,461)	(1,964,461)
Provision for taxation		<u>(1,374)</u>	<u>(6,788)</u>	<u>(12,422)</u>	<u>(27,352)</u>
		<u>(2,422,903)</u>	<u>(2,362,986)</u>	<u>(2,389,741)</u>	<u>(2,304,492)</u>
Net current liabilities		<u>(2,398,458)</u>	<u>(2,249,199)</u>	<u>(2,041,179)</u>	<u>(2,054,444)</u>
Non-current liabilities					
Deferred tax liabilities	19	<u>(168,059)</u>	<u>(176,530)</u>	<u>(184,924)</u>	<u>(188,664)</u>
Total liabilities		<u>(2,590,962)</u>	<u>(2,539,516)</u>	<u>(2,574,665)</u>	<u>(2,493,156)</u>
Net assets		<u>578,103</u>	<u>1,185,610</u>	<u>1,580,207</u>	<u>4,296,206</u>
CAPITAL AND RESERVE					
Share capital	21	1	1	1	1
Retained profits		<u>578,102</u>	<u>1,185,609</u>	<u>1,580,206</u>	<u>4,296,205</u>
Total equity		<u>578,103</u>	<u>1,185,610</u>	<u>1,580,207</u>	<u>4,296,206</u>

STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December			At 30 June
		2010	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Investment properties	12	1,940,000	2,438,000	2,663,000	5,412,000
Completed properties for sale	13	47,289	47,289	47,289	47,289
Investment in a subsidiary	14	—	—	—	—
Property, plant and equipment	15	1,157,331	1,126,050	1,096,021	1,080,025
		<u>3,144,620</u>	<u>3,611,339</u>	<u>3,806,310</u>	<u>6,539,314</u>
Current assets					
Amount due from a subsidiary		—	10	17	17
Other stock		348	473	420	333
Trade and other receivables	16	19,215	19,826	18,992	18,652
Bank balances and cash	17	4,882	93,488	329,150	231,063
		<u>24,445</u>	<u>113,797</u>	<u>348,579</u>	<u>250,065</u>
Total assets		<u>3,169,065</u>	<u>3,725,136</u>	<u>4,154,889</u>	<u>6,789,379</u>
Current liabilities					
Trade and other payables	18	(104,486)	(134,454)	(147,944)	(158,071)
Amount due to immediate holding company	26(d)	(170,711)	(120,861)	(155,198)	(54,902)
Amount due to a related company	26(d)	(1,818)	(2,100)	(3,124)	(1,379)
Amount due to a fellow subsidiary	26(d)	(180,053)	(134,316)	(106,587)	(98,322)
Loan from a fellow subsidiary	20	(1,964,461)	(1,964,461)	(1,964,461)	(1,964,461)
Provision for taxation		(1,374)	(6,788)	(12,422)	(27,352)
		<u>(2,422,903)</u>	<u>(2,362,980)</u>	<u>(2,389,736)</u>	<u>(2,304,487)</u>
Net current liabilities		<u>(2,398,458)</u>	<u>(2,249,183)</u>	<u>(2,041,157)</u>	<u>(2,054,422)</u>
Non-current liabilities					
Deferred tax liabilities	19	(168,059)	(176,530)	(184,924)	(188,664)
Total liabilities		<u>(2,590,962)</u>	<u>(2,539,510)</u>	<u>(2,574,660)</u>	<u>(2,493,151)</u>
Net assets		<u>578,103</u>	<u>1,185,626</u>	<u>1,580,229</u>	<u>4,296,228</u>
CAPITAL AND RESERVE					
Share capital	21	1	1	1	1
Retained profits	22	578,102	1,185,625	1,580,228	4,296,227
Total equity		<u>578,103</u>	<u>1,185,626</u>	<u>1,580,229</u>	<u>4,296,228</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2010	1	460,504	460,505
Profit and total comprehensive income for the year	—	215,598	215,598
Dividend paid (Note 11)	—	(98,000)	(98,000)
Balance as at 31 December 2010	1	578,102	578,103
Profit and total comprehensive income for the year	—	607,507	607,507
Balance as at 31 December 2011	1	1,185,609	1,185,610
Profit and total comprehensive income for the year	—	394,597	394,597
Balance as at 31 December 2012	1	1,580,206	1,580,207
Profit and total comprehensive income for the period ..	—	2,838,499	2,838,499
Dividend paid (Note 11)	—	(122,500)	(122,500)
Balance as at 30 June 2013.	1	4,296,205	4,296,206
For the six months ended 30 June 2012 (Unaudited)			
Balance as at 1 January 2012	1	1,185,609	1,185,610
Profit and total comprehensive income for the period ..	—	170,161	170,161
Balance as at 30 June 2012.	1	1,355,770	1,355,771

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Operating activities					
Profit before taxation	233,324	631,145	431,606	185,601	2,857,169
Adjustments for:					
Depreciation	32,631	32,841	33,179	16,519	16,805
Gain on disposal of property, plant and equipment	(35)	(15)	(15)	(8)	—
Change in fair value of investment properties	(136,000)	(498,000)	(218,946)	(97,000)	(2,749,000)
Finance costs	98,501	99,707	99,785	49,565	48,708
Operating cash flows before movements in working capital.	228,421	265,678	345,609	154,677	173,682
Decrease/(increase) in other stock	2,346	(125)	53	92	87
(Increase)/decrease in trade and other receivables	(2,258)	(611)	834	3,629	340
Increase in trade and other payables	5,799	30,511	13,490	778	10,127
Increase/(decrease) in amount due to a related company	437	283	1,023	734	(1,745)
Cash generated from operations	234,745	295,736	361,009	159,910	182,491
Income tax paid	(11,120)	(9,753)	(22,981)	—	—
Net cash from operating activities	223,625	285,983	338,028	159,910	182,491
Investing activities					
Purchase of property, plant and equipment	(2,441)	(1,563)	(3,150)	(419)	(809)
Proceed from disposal of property, plant and equipment	42	18	15	8	—
Additions to investment properties	—	—	(6,054)	—	—
Net cash used in investing activities	(2,399)	(1,545)	(9,189)	(411)	(809)
Financing activities					
Advance from a fellow subsidiary	50,934	53,205	4,220	1,481	2,537
Repayment to a fellow subsidiary	(172,479)	(98,942)	(31,949)	(9,297)	(10,802)
Interest paid	(98,233)	(100,245)	(99,785)	(49,565)	(48,708)
Advances from immediate holding company	98,403	100,245	99,785	49,567	171,208
Repayment to immediate holding company	(24)	(150,095)	(65,448)	(65,000)	(271,504)
Dividends paid	(98,000)	—	—	—	(122,500)
Net cash used in financing activities	(219,399)	(195,832)	(93,177)	(72,814)	(279,769)

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Net increase/(decrease) in cash and cash equivalents	<u>1,827</u>	<u>88,606</u>	<u>235,662</u>	<u>86,685</u>	<u>(98,087)</u>
Cash and cash equivalents at beginning of year/period	<u>3,055</u>	<u>4,882</u>	<u>93,488</u>	<u>93,488</u>	<u>329,150</u>
Cash and cash equivalents at end of year/period, represented by bank balances and cash	<u><u>4,882</u></u>	<u><u>93,488</u></u>	<u><u>329,150</u></u>	<u><u>180,173</u></u>	<u><u>231,063</u></u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because it is the current intention of Mightycity Company Limited, the immediate holding company to provide sufficient funds as and when required to enable the Group to satisfy its financial obligations as they fall due as long as the Company is a wholly owned subsidiary of Mightycity Company Limited. In the event of completion of the Acquisition, Fortune REIT has agreed to provide sufficient funds as and when required to enable the Group to satisfy its financial obligations as they fall due for the foreseeable future after the completion of the Acquisition.

The functional currency (the currency of the primary economic environment in which the entity operates) of the Company is Hong Kong dollars.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and the related interpretations ("IFRICs") issued by the International Accounting Standards Board ("IASB") (hereinafter collectively referred to as "new IFRSs") which are effective for the financial period beginning on 1 January 2013 has been consistently applied throughout the Relevant Periods.

New and revised IFRSs issued but not effective

The Group has not early adopted the following new IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments ²
Amendment to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ²
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ¹
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
IFRIC 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted

² Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted

The directors anticipated that the application of these new IFRSs will not have significant impact on amounts reported in the financial statements of the Company and its subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, except for investment properties, which are measured at fair value, and in accordance with the following accounting policies which conform to IFRSs issued by IASB and include the relevant disclosure requirements set out in the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities, net of discounts.

- Rental income from investment properties under operating lease, except for contingent rentals, is recognised in the profit or loss on a straight-line basis over the term of the relevant lease.
- Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on a receipt basis. No contingent rentals are recognised if there are uncertainties due to the possible return of amount received.

- Charge-out collections, which consists of payment in respect of the operation of the properties which are payable by the tenants and licencees, are recognised as income when the services and facilities are provided.
- Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.
- Revenue from hotel and serviced suites operation is recognised upon provision of the relevant facilities and services.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company, obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies in line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Investment in a subsidiary

Investment in a subsidiary is included in stated at cost less any identified impairment loss. Results of subsidiary are accounted for by the Company on the basis of dividends received or receivable during the year/period.

(d) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(e) Property, plant and equipment

(i) Hotel and serviced suite properties

Hotel and serviced suite properties, which are held for use in the production or supply of goods or services, are stated at cost less accumulated depreciation and impairment. Leasehold land and building is amortised over 50 years, being the shorter of useful live and remaining term of lease on a straight-line basis.

(ii) Other fixed assets

Depreciation is provided to write off the cost of other fixed assets over their estimated useful lives using the straight-line method, at the following rates per annum:

Motor vehicle	20%
Furniture, fixtures and equipment	20% to 33.33%

(f) Stock

Stock includes stock of completed properties held for sale and stock of food, beverage and consumable stores for hotel operation. Stock is stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds less selling expenses.

Cost of properties includes acquisition costs, development expenditure, interest expenses and all other costs attributable to the development of the properties. Cost of food, beverage and consumable stores comprises costs of purchases and other costs that have been incurred in bringing the stock to their present location and is calculated on the first-in, first-out basis.

(g) Financial instruments

Financial assets and financial liabilities are recognised when a group entity become a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

Financial assets, categorised as loans and receivable, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade and other receivables and bank balances and cash are measured at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. When such receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities.

Financial liabilities (including trade and other payables, amounts due to a fellow subsidiary, related company and immediate holding company and loan from a fellow subsidiary) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(h) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

(k) Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employee has rendered service entitling them to the contributions.

4. CRITICAL JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, the directors are of the opinion that there are no instances of application of judgments or the use of estimation techniques which may have a significant effect on the amounts recognised in the Financial Information other than as follows:

Deferred taxes

The Group has adopted amendments to IAS 12 which include a presumption that the carrying value of investment properties that are measured at fair value at the end of the reporting date will be recovered through sale for the purposes of measuring deferred taxes. This presumption may be overcome if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time rather than through sale. The directors of the Company have determined that the presumption that the carrying amounts of the investment properties measured

using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Investment properties

As described in Notes 3(d) and 12, investment properties are stated at fair value based on the valuation performed by independent professional valuers. The valuers have determined the fair values using the basis of capitalisation of the net income which involve the making of certain assumptions and the use of estimates. In relying on the valuation reports of the professional valuers, the directors have exercised its judgement and are satisfied that the method of valuation is reflective of the current market conditions.

5. SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports about the components of the Group which are relevant to make decisions about resources to be allocated to segments and assess their performance. Information reported for the above-mentioned purposes, is mainly focused on the different type of services provided in respect of the Group's properties, namely, (a) the retail properties and (b) the hotel and serviced suites properties. No identified operating segments have been aggregated in arriving at the reportable segments of the Group.

(i) *Segment revenue and results*

The operating segments of the Group for the year ended 31 December 2010 are as follows:

	<u>Retail properties</u> HK\$'000	<u>Hotel and serviced suites properties</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue	215,198	171,787	386,985
Segment results	162,694	32,417	195,111
Other income			714
Change in fair value of investment properties			136,000
Finance costs			(98,501)
Profit before taxation			233,324

The operating segments of the Group for the year ended 31 December 2011 are as follows:

	<u>Retail properties</u> HK\$'000	<u>Hotel and serviced suites properties</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue	230,795	212,946	443,741
Segment results	175,544	56,714	232,258
Other income			594
Change in fair value of investment properties			498,000
Finance costs			(99,707)
Profit before taxation			631,145

The operating segments of the Group for the year ended 31 December 2012 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>268,850</u>	<u>275,272</u>	<u>544,122</u>
Segment results	<u>210,178</u>	<u>101,689</u>	311,867
Other income			578
Change in fair value of investment properties			218,946
Finance costs			<u>(99,785)</u>
Profit before taxation			<u>431,606</u>

The operating segments of the Group for the six months ended 30 June 2012 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)
Segment revenue	<u>124,012</u>	<u>121,404</u>	<u>245,416</u>
Segment results	<u>97,181</u>	<u>40,698</u>	137,879
Other income			287
Change in fair value of investment properties			97,000
Finance costs			<u>(49,565)</u>
Profit before taxation			<u>185,601</u>

The operating segments of the Group for the six months ended 30 June 2013 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>140,338</u>	<u>137,908</u>	<u>278,246</u>
Segment results	<u>110,357</u>	<u>46,502</u>	156,859
Other income			18
Change in fair value of investment properties			2,749,000
Finance costs			<u>(48,708)</u>
Profit before taxation			<u>2,857,169</u>

There was no inter-segment revenue during the year/period. The Group does not allocate other income, change in fair value of investment properties and finance costs to individual operating segment profit or loss for the purposes of resource allocation and performance assessment.

(ii) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities as at 31 December 2010 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment assets			
Investment properties	1,940,000	—	1,940,000
Completed properties for sale	47,289	—	47,289
Property, plant and equipment	2	1,157,329	1,157,331
Other stock	—	348	348
Trade and other receivables.	9,794	9,421	19,215
Bank balances and cash	146	4,736	4,882
Total segment assets and consolidated total assets.	<u>1,997,231</u>	<u>1,171,834</u>	<u>3,169,065</u>
Segment liabilities			
Trade and other payables	80,420	24,066	104,486
Amount due to a related company	—	1,818	1,818
Total segment liabilities	<u>80,420</u>	<u>25,884</u>	<u>106,304</u>
Unallocated			<u>2,484,658</u>
Consolidated total liabilities			<u>2,590,962</u>

The following is an analysis of the Group's assets and liabilities as at 31 December 2011 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment assets			
Investment properties	2,438,000	—	2,438,000
Completed properties for sale	47,289	—	47,289
Property, plant and equipment	1	1,126,049	1,126,050
Other stock	—	473	473
Trade and other receivables.	9,145	10,681	19,826
Bank balances and cash	79,475	14,013	93,488
Total segment assets and consolidated total assets.	<u>2,573,910</u>	<u>1,151,216</u>	<u>3,725,126</u>
Segment liabilities			
Trade and other payables	94,217	40,242	134,459
Amount due to a related company	—	2,101	2,101
Total segment liabilities	<u>94,217</u>	<u>42,343</u>	<u>136,560</u>
Unallocated			<u>2,402,956</u>
Consolidated total liabilities			<u>2,539,516</u>

The following is an analysis of the Group's assets and liabilities as at 31 December 2012 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment assets			
Investment properties	2,663,000	—	2,663,000
Completed properties for sale	47,289	—	47,289
Property, plant and equipment	89	1,095,932	1,096,021
Other stock	—	420	420
Trade and other receivables.	6,462	12,530	18,992
Bank balances and cash	316,193	12,957	329,150
Total segment assets and consolidated total assets.	<u>3,033,033</u>	<u>1,121,839</u>	<u>4,154,872</u>
Segment liabilities			
Trade and other payables	102,844	45,105	147,949
Amount due to a related company	—	3,124	3,124
Total segment liabilities	<u>102,844</u>	<u>48,229</u>	<u>151,073</u>
Unallocated			<u>2,423,592</u>
Consolidated total liabilities			<u>2,574,665</u>

The following is an analysis of the Group's assets and liabilities as at 30 June 2013 are as follows:

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Segment assets			
Investment properties	5,412,000	—	5,412,000
Completed properties for sale	47,289	—	47,289
Property, plant and equipment	83	1,079,942	1,080,025
Other stock	—	333	333
Trade and other receivables.	6,249	12,403	18,652
Bank balances and cash	227,773	3,290	231,063
Total segment assets and consolidated total assets.	<u>5,693,394</u>	<u>1,095,968</u>	<u>6,789,362</u>
Segment liabilities			
Trade and other payables	112,541	45,535	158,076
Amount due to a related company	—	1,379	1,379
Total segment liabilities	<u>112,541</u>	<u>46,914</u>	<u>159,455</u>
Unallocated			<u>2,333,701</u>
Consolidated total liabilities			<u>2,493,156</u>

For the purpose of monitoring segment performance and allocating resources between segments:

- (a) All assets are allocated to operating segments.
- (b) All liabilities are allocated to operating segments other than amount due to immediate holding company, amount due to a fellow subsidiary, provision for taxation, deferred tax liabilities and loan from a fellow subsidiary. Liabilities used jointly by reportable segments are considered as unallocated.

(iii) Other segment information

	Retail properties	Hotel and serviced suites properties	Total
	HK\$'000	HK\$'000	HK\$'000
Capital expenditures			
— For the year ended 31 December 2010	—	2,441	2,441
— For the year ended 31 December 2011	—	1,563	1,563
— For the year ended 31 December 2012	6,160	3,044	9,204
— For the six months ended 30 June 2013	6	803	809
Depreciation			
— For the year ended 31 December 2010	—	32,631	32,631
— For the year ended 31 December 2011	—	32,841	32,841
— For the year ended 31 December 2012	14	33,165	33,179
— For the six months ended 30 June 2013	9	16,796	16,805

Capital expenditures consist of additions of investment properties and property, plant and equipment.

(iv) Geographical information

The Group's investment properties and property, plant and equipment are all located in Hong Kong. All revenue is derived from Hong Kong.

6. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Rental income from properties	159,233	172,954	194,937	94,258	105,409
Charge-out collections	36,204	38,174	41,892	20,220	22,072
Other rental related income	19,761	19,667	32,021	9,534	12,857
Hotel and serviced suites income	171,787	212,946	275,272	121,404	137,908
	<u>386,985</u>	<u>443,741</u>	<u>544,122</u>	<u>245,416</u>	<u>278,246</u>

Other rental related income include contingent rents of HK\$4.4 million, HK\$4.9 million, HK\$7.1 million, HK\$2.8 million (unaudited) and HK\$4.2 million for the years ended 31 December 2010, 31 December 2011, 31 December 2012, six months ended 30 June 2012 and 30 June 2013, respectively.

7. PROPERTY AND HOTEL OPERATING EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Advertising and promotion	7,462	7,281	7,555	3,457	4,758
Audit fee	90	100	100	30	30
Building management expenses . .	19,306	21,460	24,283	12,181	12,530
Depreciation	32,631	32,841	33,179	16,519	16,805
Directors' remuneration (Note a) .	—	—	—	—	—
Government rents and rates	4,132	3,706	4,818	2,578	2,590
Hotel management fee	3,307	4,682	7,857	2,885	3,207
Leasing commission	9,381	10,232	11,331	5,452	6,141
Legal and professional fee	596	735	583	188	312
Repair and maintenance expenses	4,590	4,779	6,044	2,791	3,479
Salaries and related expenses (Note b)	47,300	58,995	66,760	29,941	36,305
Valuation fee	23	25	26	13	14
Utilities	39,950	43,555	44,128	19,617	21,719
Other operating expenses	23,106	23,092	25,591	11,885	13,497
	<u>191,874</u>	<u>211,483</u>	<u>232,255</u>	<u>107,537</u>	<u>121,387</u>

Notes:

- (a) All directors of the Company received remuneration from CKH for their services provided to the group of companies headed by CKH, which include the Company. No apportionment of such remuneration for services rendered by these directors in their capacity as directors of the Company has made as the directors are of the opinion that the amount involved is insignificant.
- (b) Amounts include contribution to retirement benefits scheme of HK\$1.1 million, HK\$5.1 million, HK\$4.4 million, HK\$1.3 million and HK\$1.9 million for the years ended 31 December 2010, 31 December 2011, 31 December 2012, six months ended 30 June 2012 and 30 June 2013, respectively.
- (c) HK\$52.5 million, HK\$55.2 million, HK\$58.7 million, HK\$26.8 million and HK\$30.0 million of the expenses related to investment properties for generating rental income for the year ended 31 December 2010, 31 December 2011, 31 December 2012, six months ended 30 June 2012 and 30 June 2013, respectively.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest expense on:					
Amount due to immediate holding company	278	1,484	1,293	588	—
Loan from a fellow subsidiary . . .	98,223	98,223	98,492	48,977	48,708
	<u>98,501</u>	<u>99,707</u>	<u>99,785</u>	<u>49,565</u>	<u>48,708</u>

9. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Current tax:					
— Current year	8,479	15,167	28,627	11,385	14,940
— Over-provision in prior years	—	—	(12)	(12)	(10)
Deferred tax (Note 19)	9,247	8,471	8,394	4,067	3,740
	<u>17,726</u>	<u>23,638</u>	<u>37,009</u>	<u>15,440</u>	<u>18,670</u>

The Company is subject to Hong Kong Profits Tax at 16.5% for the Relevant Periods.

The tax charge for the year/period can be reconciled to the profit before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation	<u>233,324</u>	<u>631,145</u>	<u>431,606</u>	<u>185,601</u>	<u>2,857,169</u>
Tax at the applicable income tax rate	38,498	104,139	71,215	30,624	471,433
Tax effect of expenses not deductible for tax purpose	1,668	1,670	1,934	880	834
Tax effect of income not taxable for tax purpose	(22,440)	(82,171)	(36,128)	(16,052)	(453,587)
Over-provision in prior years	—	—	(12)	(12)	(10)
Tax charge for the year/period	<u>17,726</u>	<u>23,638</u>	<u>37,009</u>	<u>15,440</u>	<u>18,670</u>

10. EARNINGS PER SHARE

Earnings per share of the Group for the Relevant Periods are not presented as such information is not considered meaningful in the context of this report.

11. DIVIDENDS

Dividends paid to the sole shareholder of the Company are summarised as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
2010 interim dividend, paid of HK\$2,000,000 per "B" share	98,000	—	—	—	—
2013 interim dividend, paid of HK\$2,500,000 per "B" share	—	—	—	—	122,500
	<u>98,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>122,500</u>

12. INVESTMENT PROPERTIES

	HK\$'000
THE GROUP AND THE COMPANY	
Balance as at 1 January 2010	1,804,000
Change in fair value	136,000
Balance as at 31 December 2010.	<u>1,940,000</u>
Change in fair value	498,000
Balance as at 31 December 2011.	<u>2,438,000</u>
Additions.	6,054
Change in fair value	218,946
Balance as at 31 December 2012.	<u>2,663,000</u>
Change in fair value	2,749,000
Balance as at 30 June 2013	<u><u>5,412,000</u></u>

The investment properties are located in Hong Kong and held under medium-term lease which are finance lease in nature.

The investment properties have been leased out under operating leases. The investment properties are stated at fair value and revalued on 31 December 2010, 31 December 2011, 30 June 2012 and 31 December 2012 by DTZ Debenham Tie Leung Limited, an independent professional valuer having appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations.

In estimating the fair value of investment properties, it is the Group's policy to engage a third party qualified external valuer to perform the valuation.

The valuations of the properties as at the above mentioned dates were principally arrived at using the basis of capitalisation of the net income. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield which is the capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions of similar commercial properties in Hong Kong and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

Due to the Acquisition, the fair value of the investment properties as at 30 June 2013 was made by reference to the purchase consideration of the Acquisition. The purchase consideration was arrived after taking into account the valuations of Kingswood Ginza Property as at 30 June 2013 conducted by Jones Lang LaSalle Limited and Savills Valuation and Professional Services Limited. The capitalisation rates in these two valuations are 4.6% and 4.5% respectively. The capitalisation rate is one of the key parameters in the valuation method of income capitalisation described above and they involve professional adjustments made by the independent valuers.

13. COMPLETED PROPERTIES FOR SALE

THE GROUP AND THE COMPANY

These properties, being portion of Kingswood Ginza Property, were developed by the Company in previous years for sale purpose. These properties were not expected to be sold within twelve months after the end of the respective period and therefore are classified as non-current assets. Subsequent to 30 June 2013, the Manager of Fortune REIT has determined that the properties would not be sold and shall be held as investment properties after the successful completion of the Acquisition of the Company by Fortune REIT.

The completed properties for sale are located in Hong Kong and held under medium term lease which are finance lease in nature.

14. INVESTMENT IN A SUBSIDIARY

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$	HK\$	HK\$	HK\$
THE COMPANY				
Unlisted share, at cost	—	1	1	1

The share of the subsidiary was transferred to a fellow subsidiary of the Company subsequent to 30 June 2013.

15. PROPERTY, PLANT AND EQUIPMENT

	Hotel and serviced suite properties	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP AND THE COMPANY				
COST				
At 1 January 2010	1,504,069	122,322	815	1,627,206
Additions	—	2,441	—	2,441
Disposals	—	(4,945)	—	(4,945)
At 31 December 2010	1,504,069	119,818	815	1,624,702
Additions	—	1,563	—	1,563
Disposals	—	(1,294)	(271)	(1,565)
At 31 December 2011	1,504,069	120,087	544	1,624,700
Additions	—	3,150	—	3,150
Disposals	—	(396)	—	(396)
At 31 December 2012	1,504,069	122,841	544	1,627,454
Additions	—	809	—	809
Disposals	—	(477)	—	(477)
At 30 June 2013	1,504,069	123,173	544	1,627,786
DEPRECIATION				
At 1 January 2010	318,918	120,106	654	439,678
Charged for the year	31,604	986	41	32,631
Eliminated on disposal	—	(4,938)	—	(4,938)
At 31 December 2010	350,522	116,154	695	467,371
Charged for the year	31,604	1,196	41	32,841
Eliminated on disposal	—	(1,292)	(270)	(1,562)
At 31 December 2011	382,126	116,058	466	498,650
Charged for the year	31,604	1,534	41	33,179
Eliminated on disposal	—	(396)	—	(396)
At 31 December 2012	413,730	117,196	507	531,433
Charged for the year	15,802	983	20	16,805
Eliminated on disposal	—	(477)	—	(477)
At 30 June 2013	429,532	117,702	527	547,761
CARRYING VALUES				
At 31 December 2010	1,153,547	3,664	120	1,157,331
At 31 December 2011	1,121,943	4,029	78	1,126,050
At 31 December 2012	1,090,339	5,645	37	1,096,021
At 30 June 2013	1,074,537	5,471	17	1,080,025

The hotel and serviced suites properties are located in Hong Kong and held under medium term lease which are finance lease in nature. Since the leasehold land element cannot be separated reliably from the building element, the lease payment on land is included in the carrying amount of hotel and serviced suites properties.

16. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP AND THE COMPANY				
Trade receivables (Note 26(b))	8,038	9,328	9,491	7,305
Security deposits	7,117	7,049	7,270	8,209
Other receivables (Note 26(f))	4,060	3,449	2,231	3,138
Total.	<u>19,215</u>	<u>19,826</u>	<u>18,992</u>	<u>18,652</u>

Aging analysis of the Group's and Company's trade receivables presented based on the invoice date, which approximate the respective revenue recognition dates, at the end of the reporting date is as follows:

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 — 30 days	6,230	7,496	8,820	6,660
31 — 90 days	85	71	104	81
Over 90 days	1,723	1,761	567	564
	<u>8,038</u>	<u>9,328</u>	<u>9,491</u>	<u>7,305</u>

Trade receivables mainly comprise receivables from the hotel and serviced suites operation. An average credit period of 30 days is allowed to corporate customers and travel agents. Trade receivables which are past due at the end of the reporting period are not significant and not impaired as these debtors have good repayment history. The Group does not hold any collateral over these balances. In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants.

All trade and other receivables are denominated in Hong Kong dollars.

17. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. Bank balances are interest bearing at the respective saving deposits rate ranging from 0.0001% to 0.1000% per annum.

18. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Tenants' deposits				
— Outside parties	56,434	69,088	83,595	93,354
— Related parties (Note 26(c))	415	412	447	388
	<u>56,849</u>	<u>69,500</u>	<u>84,042</u>	<u>93,742</u>
Interest payable — related parties (Note 26(e)) . .	17,223	16,684	16,684	16,684
Rental received in advance	7,829	7,639	3,522	7,086
Construction costs payables	758	758	1,820	941
Other payables and accruals	21,827	39,878	41,881	39,623
	<u>104,486</u>	<u>134,459</u>	<u>147,949</u>	<u>158,076</u>
THE COMPANY				
Tenants' deposits				
— Outside parties	56,434	69,088	83,595	93,354
— Related parties (Note 26(c))	415	412	447	388
	<u>56,849</u>	<u>69,500</u>	<u>84,042</u>	<u>93,742</u>
Interest payable — related parties (Note 26(e)) . .	17,223	16,684	16,684	16,684
Rental received in advance	7,829	7,639	3,522	7,086
Construction costs payables	758	758	1,820	941
Other payables and accruals	21,827	39,873	41,876	39,618
	<u>104,486</u>	<u>134,454</u>	<u>147,944</u>	<u>158,071</u>

Trade and other payables comprise primarily deposits refundable to tenants upon cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 30 days upon the termination of the tenancy agreement.

The tenants' deposits which are to be settled after twelve months from the end of the reporting periods based on the lease term, amounted to HK\$30.0 million, HK\$41.2 million, HK\$45.0 million, HK\$48.1 million as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, respectively.

19. DEFERRED TAX LIABILITIES

	Accelerated tax depreciation
	HK\$'000
THE GROUP AND THE COMPANY	
Balance as at 1 January 2010	158,812
Charge to profit or loss for the year	9,247
Balance as at 31 December 2010	168,059
Charge to profit or loss for the year	8,471
Balance as at 31 December 2011	176,530
Charge to profit or loss for the year	8,394
Balance as at 31 December 2012	184,924
Charge to profit or loss for the period	3,740
Balance as at 30 June 2013	<u>188,664</u>

20. LOAN FROM A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

The loan from a fellow subsidiary is secured, due for repayment in one lump sum in October 2012, which was subsequently extended on 22 October 2012 to 22 October 2022, and bear interest at prime lending rate for the Relevant Periods.

The loan from a fellow subsidiary is shown under current liabilities as the loan agreement contains a repayment on demand clause. The loan from a fellow subsidiary were fully assigned to immediate holding company subsequent to 30 June 2013.

21. SHARE CAPITAL

THE COMPANY

The authorised and issued share capital of HK\$1,000 are divided into 51 "A" shares and 49 "B" shares, all of HK\$10 each. The "A" shares and "B" shares constitute separate classes of shares and confer to their respective holders the rights and privileges, and are subject to the limitations and restrictions specified in the Company's Articles of Association.

Under the Company's Articles of Association, "B" shares entitle on their holders the exclusive right to receive dividend and to receive, on any return of capital, that proportion of the assets available to be returned to shareholders while "A" shares do not give the holders such right to receive any dividend or return of capital.

22. RETAINED PROFITS

HK\$'000

THE COMPANY

Balance as at 1 January 2010	460,504
Profit and total comprehensive income for the year	215,598
Dividend paid (Note 11)	(98,000)
Balance as at 31 December 2010	578,102
Profit and total comprehensive income for the year	607,523
Balance as at 31 December 2011	1,185,625
Profit and total comprehensive income for the year	394,603
Balance as at 31 December 2012	1,580,228
Profit and total comprehensive income for the period	2,838,499
Dividend paid (Note 11)	(122,500)
Balance as at 30 June 2013	4,296,227

23. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the returns to its shareholders through optimisation of debt and equity balances. The Group's strategy remained unchanged throughout the Relevant Periods.

The capital structure of the Group consists of loan from a fellow subsidiary, amount due to immediate holding company, cash and cash equivalents and total equity of the Company, comprising issued share capital and retained profits.

The Group reviews and manages its capital structure on regular basis.

24. FINANCIAL INSTRUMENTS

a. *Categories of financial instruments*

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP AND THE COMPANY				
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables	18,204	19,096	18,113	16,653
Bank balances and cash	4,882	93,488	329,150	231,063
	<u>23,086</u>	<u>112,584</u>	<u>347,263</u>	<u>247,716</u>
Financial liabilities				
<i>Amortised cost</i>				
Trade and other payables	37,634	41,316	35,324	36,715
Amount due to immediate holding company . . .	170,711	120,861	155,198	54,902
Amount due to a related company	1,818	2,101	3,124	1,379
Amount due to a fellow subsidiary	180,053	134,316	106,587	98,322
Loan from a fellow subsidiary	1,964,461	1,964,461	1,964,461	1,964,461
	<u>2,354,677</u>	<u>2,263,055</u>	<u>2,264,694</u>	<u>2,155,779</u>

b. *Financial risk management objectives and policies*

Details of the Group's and the Company's financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group and Company have no significant interest bearing assets, their income and operating cash flows are substantially independent of changes in market interest rates. The interest rate risk arises from loan from a fellow subsidiary, amount due to immediate holding company which are interest bearing at market rates. Borrowings at market interest rates expose the Group and the Company to cash flow interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the Group's and the Company's exposure to interest rates for the stipulated changes taking place at the beginning of the financial year and held constant throughout the financial period in the case of financial instruments that bear interest at floating rates. 25 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's and the Company's profit for the year/period would decrease or increase accordingly. This is mainly attributable to the Group's and the Company's exposure to interest rates on its floating rate borrowings which are not hedged. The following analysis shows the Company's sensitivity to interest rates exposure.

Increase in interest rates basis points by:

	Decrease in profit			
	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP AND THE COMPANY				
25 basis points	<u>4,457</u>	<u>4,353</u>	<u>4,425</u>	<u>4,215</u>

Conversely, if the interest rates were to decline, the effect would be an increase in the Group's and Company's result by the amount shown above.

No interest rate sensitivity analysis in relation to interest bearing financial assets of the Group and the Company is presented since the management considers that the interest rate risk exposure on the interest bearing financial assets is insignificant.

Credit risk

The Group and the Company are exposed to credit risk in relation to trade and other receivables and cash deposits with banks. The carrying amounts of these balances represent the Group's and the Company's maximum exposure to credit risk in relation to financial assets.

To manage this risk, deposits are mainly placed with high credit quality financial institutions. In addition, it has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. Monthly rental in respect of rented properties are payable in advance by tenants in accordance with the lease agreements. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group's and the Company's review regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Group and the Company has no significant concentration of credit risks.

Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of borrowings from group companies.

Though the Group is in net current liabilities position, the Financial Information has been prepared on a going concern because it is the current intention of Mightycity Company Limited to provide sufficient funds as and when required to enable the Group to satisfy its financial obligations as they fall due as long as the Company is a wholly owned subsidiary of Mightycity Company Limited. In the event of the completion of the Acquisition, Fortune REIT has agreed to provide sufficient funds as and when required to enable the Group to satisfy in full its financial obligations as they fall due for the foreseeable future after the completion of the Acquisition.

Liquidity risk analysis

The following table analyses the Group's and Company's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2010							
Financial liabilities							
Trade and other payables	—	37,634	—	—	—	37,634	37,634
Tenants' deposits	—	10,192	16,650	16,300	13,707	56,849	56,849
Amount due to immediate holding company	0.2%	170,711	—	—	—	170,711	170,711
Amount due to a related company	—	1,818	—	—	—	1,818	1,818
Amount due to a fellow subsidiary	—	180,053	—	—	—	180,053	180,053
Loan from a fellow subsidiary	5.0%	1,964,461	—	—	—	1,964,461	1,964,461
		<u>2,364,869</u>	<u>16,650</u>	<u>16,300</u>	<u>13,707</u>	<u>2,411,526</u>	<u>2,411,526</u>

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2011							
Financial liabilities							
Trade and other payables	—	41,316	—	—	—	41,316	41,316
Tenants' deposits	—	12,921	15,353	19,758	21,468	69,500	69,500
Amount due to immediate holding company	1.3%	120,861	—	—	—	120,861	120,861
Amount due to a related company	—	2,101	—	—	—	2,101	2,101
Amount due to a fellow subsidiary	—	134,316	—	—	—	134,316	134,316
Loan from a fellow subsidiary	5.0%	1,964,461	—	—	—	1,964,461	1,964,461
		<u>2,275,976</u>	<u>15,353</u>	<u>19,758</u>	<u>21,468</u>	<u>2,332,555</u>	<u>2,332,555</u>

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2012
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2012							
Financial liabilities							
Trade and other payables	—	35,324	—	—	—	35,324	35,324
Tenants' deposits	—	14,289	24,728	25,897	19,128	84,042	84,042
Amount due to immediate holding company	1.0%	155,198	—	—	—	155,198	155,198
Amount due to a related company	—	3,124	—	—	—	3,124	3,124
Amount due to a fellow subsidiary	—	106,587	—	—	—	106,587	106,587
Loan from a fellow subsidiary	5.0%	1,964,461	—	—	—	1,964,461	1,964,461
		<u>2,278,983</u>	<u>24,728</u>	<u>25,897</u>	<u>19,128</u>	<u>2,348,736</u>	<u>2,348,736</u>

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	1 year to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 30 June 2013
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2013							
Financial liabilities							
Trade and other payables	—	36,715	—	—	—	36,715	36,715
Tenants' deposits	—	17,822	27,733	26,945	21,242	93,742	93,742
Amount due to immediate holding company	—	54,902	—	—	—	54,902	54,902
Amount due to a related company	—	1,379	—	—	—	1,379	1,379
Amount due to a fellow subsidiary	—	98,322	—	—	—	98,322	98,322
Loan from a fellow subsidiary	5.0%	1,964,461	—	—	—	1,964,461	1,964,461
		<u>2,173,601</u>	<u>27,733</u>	<u>26,945</u>	<u>21,242</u>	<u>2,249,521</u>	<u>2,249,521</u>

c. Fair value

The fair value of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

25. OPERATING LEASE COMMITMENTS

The future minimum lease charges payable by the Group and the Company under non-cancellable operating leases in respect of motor vehicles and other fixed assets are as follows:

	Year ended 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	3,471	6,592	4,569	2,055
Later than one year and not later than five years	—	4,569	—	554
	<u>3,471</u>	<u>11,161</u>	<u>4,569</u>	<u>2,609</u>

The analysis of the future minimum lease income receivable by the Company and the Group under non-cancellable operating leases for property rental is as follows:

	Year ended 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	135,237	204,573	273,241	243,124
Later than one year and not later than five years	97,625	144,830	137,054	118,759
	<u>232,862</u>	<u>349,403</u>	<u>410,295</u>	<u>361,883</u>

The Company rents out its properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Company and the Group for its investment properties and serviced suites. Leases are negotiated for terms ranging 1 month to 3 years with monthly fixed rental, except for certain leases of which contingent rents are charged at 6% to 10% on tenants' sales amount.

26. RELATED PARTY TRANSACTIONS

- (a) During the Relevant Periods, the Company and the Group entered into the following transactions with related parties:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Rental and charge-out collection from subsidiaries of Hutchison Whampoa Limited ("HWL") (Note)	23,491	24,303	23,728	12,215	13,565
Letting commission paid to fellow subsidiaries.	9,287	10,115	11,273	5,425	6,112
Hotel management fee paid to an associated company of CKH . . .	3,307	4,682	7,857	2,885	3,207
Interest expenses paid to immediate holding company and a fellow subsidiary	98,501	99,707	99,785	49,565	48,708

Note: HWL is 49.9% owned by CKH and is described as an associate of CKH in the latest published annual consolidated financial statements of CKH.

- (b) Included in the Company's and the Group's trade receivables are rental and trade receivables from subsidiaries of HWL with a carrying amount of HK\$549,000, HK\$962,000, HK\$1,029,000 and HK\$1,005,000 as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, respectively.
- (c) Included in the Company's and the Group's tenants' deposits are amounts received from fellow subsidiaries with a carrying amount of HK\$415,000, HK\$412,000, HK\$447,000 and HK\$388,000 as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, respectively.
- (d) The amount due to immediate holding company is unsecured, repayable on demand and bear interest ranging from 0.20% to 1.54% per annum for the years ended 31 December 2010, 31 December 2011 and 31 December 2012. The amount due to immediate holding company is interest free at 30 June 2013.
- The amount due to a fellow subsidiary is unsecured, interest-free and repayable on demand.
- The amount due to a related company, which is an associated company of CKH, is unsecured, interest-free and repayable on demand.
- (e) Included in the Company's and the Group's other payables are interest payable to fellow subsidiary with a carrying amount of HK\$17,223,000, HK\$16,684,000, HK\$16,684,000 and HK\$16,684,000 as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, respectively.
- (f) Included in the Company's and the Group's other receivables are monies received by a fellow subsidiary on behalf of the Company with a carrying amount of HK\$28,000, HK\$63,000, HK\$117,000 and HK\$164,000 as at 31 December 2010, 31 December 2011, 31 December 2012 and 30 June 2013, respectively.

27. SUBSEQUENT EVENT

(a) Subsequent to 30 June 2013, the hotel and serviced suite property were transferred to a fellow subsidiary of the Company on 26 July 2013 at a consideration of HK\$1,102 million. The other hotel-related assets and liabilities were also transferred to the fellow subsidiary on the same date at their net book value.

(i) The results of the hotel and serviced suites operations for the three years ended 31 December 2012 and for the six months ended 2012 and 2013, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Hotel and serviced suites income	171,787	212,946	275,272	121,404	137,908
Less: Operating expenses	(139,370)	(156,232)	(173,583)	(80,706)	(91,406)
	<u>32,417</u>	<u>56,714</u>	<u>101,689</u>	<u>40,698</u>	<u>46,502</u>

(ii) The assets and liabilities of the hotel and serviced suites operations as at the 31 December 2010, 2011 and 2012 and 30 June 2013 are as follows:

	At 31 December			At 30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	1,157,329	1,126,049	1,095,932	1,079,942
Other stock	348	473	420	333
Trade and other receivables.	9,421	10,681	12,530	12,403
Bank balances and cash	4,736	14,013	12,957	3,290
	<u>1,171,834</u>	<u>1,151,216</u>	<u>1,121,839</u>	<u>1,095,968</u>
Trade and other payables	(24,066)	(40,242)	(45,105)	(45,535)
Amount due to a related company	(1,818)	(2,101)	(3,124)	(1,379)
	<u>(25,884)</u>	<u>(42,343)</u>	<u>(48,229)</u>	<u>(46,914)</u>

(b) Subsequent to 30 June 2013, the subsidiary of the Company was transferred to a fellow subsidiary of the Company on 26 July 2013 at a consideration of HK\$1. The subsidiary was inactive since its incorporation in June 2011 and has insignificant net liabilities as at 30 June 2013.

(II) HOLDING COMPANIES

The Company's immediate holding company is Mightycity Company Limited, a private limited liability company incorporated in Hong Kong whereas the directors consider CKH, a company incorporated and listed in Hong Kong, to be the Company's ultimate holding company throughout the Relevant Periods.

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiary have been prepared in respect of any period subsequent to 30 June 2013.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this Circular, from Deloitte Touche Tohmatsu, certified public accountants, in relation to the unaudited pro forma financial information of the Fortune REIT Group.



INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF ARA ASSET MANAGEMENT (FORTUNE) LIMITED (AS MANAGER OF FORTUNE REAL ESTATE INVESTMENT TRUST) AND HSBC INSTITUTIONAL TRUST SERVICES (SINGAPORE) LIMITED (AS TRUSTEE OF FORTUNE REAL ESTATE INVESTMENT TRUST)

We have completed our assurance engagement to report on the compilation of pro forma financial information of Fortune Real Estate Investment Trust ("**Fortune REIT**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by ARA Asset Management (Fortune) Limited (the "**Manager**" of Fortune REIT) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statements of financial position as at 31 December 2012 and 30 June 2013, pro forma consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2012 and six months ended 30 June 2013 and related notes as set out on pages A3-4 to A3-17 of the circular issued by Fortune REIT dated 28 August 2013 (the "**Circular**"). The applicable criteria on the basis of which the Manager has compiled the pro forma financial information are described on pages A3-4 to A3-17 of the Circular.

The pro forma financial information has been compiled by the Manager to illustrate the impact of the proposed acquisition of the Kingswood Ginza Property through the acquisition of a 100% of the issued share capital of Tin Shui Wai Development Limited (the "**Acquisition**") on the Group's financial positions as at 31 December 2012 and 30 June 2013 as if the transaction had taken place at 31 December 2012 and 30 June 2013 respectively, and on the Group's financial performance for the year ended 31 December 2012 and six months ended 30 June 2013 as if the transaction had taken place at 1 January 2012 and 1 January 2013 respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Manager from the Group's financial statements for the year ended 31 December 2012 and the six months ended 30 June 2013 respectively, on which audit reports have been published.

Manager's Responsibilities for the Pro Forma Financial Information

The Manager is responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Manager has compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction on the Group's financial positions as if the transaction had taken place at 31 December 2012 and 30 June 2013, and the Group's financial performance as if the transaction had taken place at 1 January 2012 and 1 January 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Manager in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2013

1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group as of 30 June 2013 which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group assuming that the Acquisition had taken place on 30 June 2013. The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of financial position of the Group as of 30 June 2013, extracted from the interim report of the Group for the six months ended 30 June 2013; and
- (b) the consolidated statement of financial position of Tin Shui Wai Development Limited and its subsidiary, Topview Development Limited (hereinafter collectively referred to as the "**Target Group**") as of 30 June 2013, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

APPENDIX 3
PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as of 30 June 2013 or at any future date following the completion of the Acquisition.

	The Group	Target Group	Pro forma adjustments	Notes	The Enlarged Group	Notes
	HK\$'000	HK\$'000	HK\$'000		HK\$'000	
Non-current assets						
Investment properties	22,188,000	5,412,000	437,000	(2)	28,037,000	
Property, plant and equipment	—	1,080,025	(1,079,942)	(1)	83	
Derivative financial instruments	71,159	—			71,159	
Completed properties for sale	—	47,289	(47,289)	(2)	—	
	<u>22,259,159</u>	<u>6,539,314</u>			<u>28,108,242</u>	
Current assets						
Trade and other receivables	55,290	18,652	(12,403)	(1)	61,539	
Other stock	—	333	(333)	(1)	—	
Bank balances and cash	552,506	231,063	(3,290)	(1)	(13,703)	(9)
			(622,000)	(3)		
			(67,951)	(4)		
			(56,792)	(5)		
			(47,239)	(6)		
	<u>607,796</u>	<u>250,048</u>			<u>47,836</u>	(9)
Total assets	<u>22,866,955</u>	<u>6,789,362</u>			<u>28,156,078</u>	(9)
Non-current liabilities						
Derivative financial instruments	71,987	—			71,987	
Borrowings	3,886,548	—	5,227,000	(3)	9,045,597	
			(67,951)	(4)		
Deferred tax liabilities	204,487	188,664	(63,574)	(1)	329,577	
	<u>4,163,022</u>	<u>188,664</u>			<u>9,447,161</u>	
Current liabilities						
Trade and other payables	423,546	158,076	(45,535)	(1)	519,403	
			(16,684)	(2)		
Loan from a fellow subsidiary	—	1,964,461	(893,349)	(2)	—	
			(1,071,112)	(1)		
Amount due to immediate holding company	—	54,902	(54,902)	(2)	—	
Amount due to a fellow subsidiary	—	98,322	(98,322)	(2)	—	
Amount due to a related company	—	1,379	(1,379)	(1)	—	
Borrowings	840,000	—			840,000	
Derivative financial instruments	9,130	—			9,130	
Distribution payable	306,965	—			306,965	
Provision for taxation	65,805	27,352	63,574	(1)	156,731	
	<u>1,645,446</u>	<u>2,304,492</u>			<u>1,832,229</u>	
Total liabilities, excluding net assets attributable to unitholders	<u>5,808,468</u>	<u>2,493,156</u>			<u>11,279,390</u>	
Net assets attributable to unitholders	<u>17,058,487</u>	<u>4,296,206</u>			<u>16,876,688</u>	(9)
Units in issue and to be issued	<u>1,704,730,532</u>		<u>8,930,000</u>	(7)	<u>1,713,660,532</u>	(10)
Net asset value per unit (HK\$)	<u>10.01</u>				<u>9.85</u>	(10)

Notes:

1. The adjustment represents the transfer of assets and liabilities relating to the hotel and serviced suites operations to a fellow subsidiary of Tin Shui Wai Development Limited ("TSW"), the tax effects arising from the transfer and the settlement of consideration receivable by offsetting against the Target Group's loan from a fellow subsidiary amounting to HK\$1,071,112,000, representing the consideration for transferring the hotel and serviced suites property of HK\$1,102,000,000, and the other hotel-related assets and liabilities at carrying amount of HK\$30,888,000.
2. The adjustment represents:
 - (a) the acquisition of the entire issued share capital of TSW, together with the assignment of the amount due to immediate holding company, loan from a fellow subsidiary, amount due to a fellow subsidiary and related interest payables to the Group at a consideration of HK\$5,849,000,000; and
 - (b) the reclassification of certain portion of Kingswood Ginza Property currently held by TSW for sale in the ordinary course of business to investment properties in line with the intention and the business model of the Group.
3. The adjustment represents the settlement of total consideration for the acquisition of Kingswood Ginza Property of HK\$5,849,000,000 ("**Purchase Consideration**") financed by term loans at the maximum amount of HK\$5,227,000,000 under the New Facilities and the remainder by cash settlement of HK\$622,000,000. Please refer to note 9 for further details.
4. The adjustment represents the payment of front end fee on the New Facilities.
5. The adjustment represents the payment of stamp duty and professional fee expenses relating to the Acquisition of HK\$56,792,000.
6. Pursuant to the Share Purchase Agreement, the Purchase Consideration is subject to adjustment for the net current assets/liabilities of the Target Group at the completion date of the Acquisition. Accordingly, the adjustment represents the additional payment for the Acquisition assuming that the net current assets of the Target Group is the same as that at 30 June 2013 of HK\$47,239,000.
7. The adjustment represents the payment of acquisition fee expense to the Manager of HK\$58,490,000, which is calculated at 1% of the Purchase Consideration pursuant to the Trust Deed and will be settled in units of Fortune REIT to be issued at market price. Based on the market price per unit of Fortune REIT as at 27 August 2013, the Latest Practicable Date, of HK\$6.55, being the closing market price per unit of Fortune REIT quoted from The Stock Exchange of Hong Kong Limited, 8,930,000 units of Fortune REIT will be issued to the Manager.
8. For the purpose of preparing the pro forma financial information, the total fair value of Kingswood Ginza Property at 30 June 2013 is assumed to be the same as that at the date of Acquisition.
9. Fortune REIT has raised gross proceeds of approximately HK\$975,000,000 from the placement of 142,962,000 units issued at an issue price of HK\$6.82 per unit on 30 July 2013 ("**Unit Placement**"). The net proceed from the Unit Placement of approximately HK\$947,000,000, after deducting the issue expenses incurred in connection with the Unit Placement, will be used to partly finance the Acquisition, and hence the shortfall of bank balances and cash shown in pro forma consolidated statement of financial position will not arise and the New Facilities to be drawn by the Group at the time of the Acquisition will be reduced by HK\$153,018,000 to HK\$5,073,982,000.

Had the net proceed from the Unit Placement been taken into account, the pro forma bank balances and cash, current assets, total assets, borrowings under non-current liabilities, non-current liabilities and the net assets attributable to the unitholders of the Enlarged Group would be approximately HK\$780,279,000, HK\$841,818,000, HK\$28,950,060,000, HK\$8,892,579,000, HK\$9,294,143,000 and HK\$17,823,688,000, respectively.
10. For the purpose of the net asset value per unit of the Enlarged Group, the units in issue and to be issued does not take into account of units issued in the Unit Placement. Had the net proceed from the Unit Placement and the 142,962,000 units issued in the Unit Placement been taken into account, the net asset value per unit of the Enlarged Group would be approximately HK\$9.60.

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group as of 31 December 2012 which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group assuming that the Acquisition had taken place on 31 December 2012. The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of financial position of the Group as of 31 December 2012, extracted from the annual report of the Group for the year ended 31 December 2012; and
- (b) the consolidated statement of financial position of Target Group as of 31 December 2012, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

APPENDIX 3
PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as of 31 December 2012 or at any future date following the completion of the Acquisition.

	The Group	Target Group	Pro forma adjustments	Notes	The Enlarged Group	Notes
	HK\$'000	HK\$'000	HK\$'000		HK\$'000	
Non-current assets						
Investment properties	20,208,000	2,663,000	3,186,000	(2)	26,057,000	
Property, plant and equipment	—	1,096,021	(1,095,932)	(1)	89	
Completed properties for sale	—	47,289	(47,289)	(2)	—	
	<u>20,208,000</u>	<u>3,806,310</u>			<u>26,057,089</u>	
Current assets						
Trade and other receivables	55,245	18,992	(12,530)	(1)	61,707	
Other stock	—	420	(420)	(1)	—	
Bank balances and cash	578,022	329,150	(12,957)	(1)	(15,470)	(9)
			(622,000)	(3)		
			(67,951)	(4)		
			(57,023)	(5)		
			(162,711)	(6)		
	<u>633,267</u>	<u>348,562</u>			<u>46,237</u>	(9)
Total assets	<u>20,841,267</u>	<u>4,154,872</u>			<u>26,103,326</u>	(9)
Non-current liabilities						
Derivative financial instruments	145,357	—			145,357	
Borrowings	3,878,815	—	5,227,000	(3)	9,037,864	
			(67,951)	(4)		
Deferred tax liabilities	192,886	184,924	(61,362)	(1)	316,448	
	<u>4,217,058</u>	<u>184,924</u>			<u>9,499,669</u>	
Current liabilities						
Trade and other payables	410,827	147,949	(45,105)	(1)	496,987	
			(16,684)	(2)		
Loan from a fellow subsidiary	—	1,964,461	(884,783)	(2)	—	
			(1,079,678)	(1)		
Amount due to immediate holding company	—	155,198	(155,198)	(2)	—	
Amount due to a fellow subsidiary	—	106,587	(106,587)	(2)	—	
Amount due to a related company	—	3,124	(3,124)	(1)	—	
Borrowings	940,000	—			940,000	
Distribution payable	281,135	—			281,135	
Provision for taxation	14,538	12,422	61,362	(1)	88,322	
	<u>1,646,500</u>	<u>2,389,741</u>			<u>1,806,444</u>	
Total liabilities, excluding net assets attributable to unitholders	<u>5,863,558</u>	<u>2,574,665</u>			<u>11,306,113</u>	
Net assets attributable to unitholders	<u>14,977,709</u>	<u>1,580,207</u>			<u>14,797,213</u>	(9)
Units in issue and to be issued	1,700,225,414		8,930,000	(7)	1,709,155,414	(10)
Net asset value per unit (HK\$)	<u>8.81</u>				<u>8.66</u>	(10)

Notes:

1. The adjustment represents the transfer of assets and liabilities relating to the hotel and serviced suites operations to a fellow subsidiary of TSW, the tax effects arising from the transfer and the settlement of consideration receivable by offsetting against the Target Group's loan from a fellow subsidiary amounting to HK\$1,079,678,000, representing the consideration for transferring the hotel and serviced suites property of HK\$1,102,000,000, and the other hotel-related assets and liabilities at carrying amount of HK\$22,322,000.
2. The adjustment represents:
 - (a) the acquisition of the entire issued share capital of TSW, together with the assignment of the amount due to immediate holding company, loan from a fellow subsidiary, amount due to a fellow subsidiary and related interest payables to the Group at a consideration of HK\$5,849,000,000; and
 - (b) the reclassification of certain portion of Kingswood Ginza Property currently held by TSW for sale in the ordinary course of business to investment properties in line with the intention and the business model of the Group.
3. The adjustment represents the settlement of total consideration for the acquisition of Kingswood Ginza Property of Purchase Consideration financed by term loans of HK\$5,227,000,000 under the New Facilities and the remainder by cash settlement of HK\$622,000,000. Please refer to note 9 for further details.
4. The adjustment represents the payment of front end fee on the New Facilities.
5. The adjustment represents the payment of stamp duty and professional fee expenses relating to the Acquisition of HK\$57,023,000.
6. Pursuant to the Share Purchase Agreement, the Purchase Consideration is subject to adjustment for the net current assets/liabilities of the Target Group at the completion date of the Acquisition. Accordingly, the adjustment represents the additional payment for the Acquisition assuming that the net current assets of the Target Group is the same as that at 31 December 2012 of HK\$162,711,000.
7. The adjustment represents the payment of acquisition fee expenses to the Manager of HK\$58,490,000, which is calculated at 1% of the Purchase Consideration pursuant to the Trust Deed and will be settled in units of Fortune REIT to be issued at market price. Based on the market price per unit of Fortune REIT as at 27 August 2013, the Latest Practicable Date, of HK\$6.55, being the closing market price per unit of Fortune REIT quoted from The Stock Exchange of Hong Kong Limited, 8,930,000 units of Fortune REIT will be issued to the Manager.
8. For the purpose of preparing the pro forma financial information, the total fair value of Kingswood Ginza Property at 31 December 2012 is assumed to be the same as that at the date of Acquisition.
9. Fortune REIT has raised gross proceeds of approximately HK\$975,000,000 from Unit Placement. The net proceed from the Unit Placement of approximately HK\$947,000,000, after deducting the issue expenses incurred in connection with the Unit Placement, will be used to partly finance the Acquisition, and hence the shortfall of bank balances and cash shown in pro forma consolidated statement of financial position will not arise and the New Facilities to be drawn by the Group at the time of the Acquisition will be reduced by HK\$37,315,000 to HK\$5,189,685,000.

Had the net proceed from the Unit Placement been taken into account, the pro forma bank balances and cash, current assets, total assets, borrowings under non-current liabilities, non-current liabilities and the net assets attributable to the unitholders of the Enlarged Group would be approximately HK\$894,215,000, HK\$955,922,000, HK\$27,013,011,000, HK\$9,000,549,000, HK\$9,462,354,000 and HK\$15,744,213,000, respectively.
10. For the purpose of the net asset value per unit of the Enlarged Group, the units in issue and to be issued does not take into account of units issued in the Unit Placement. Had the net proceed from the Unit Placement and the 142,962,000 units issued in the Unit Placement been taken into account, the net asset value per unit of the Enlarged Group would be approximately HK\$8.50.

The following is the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the six months ended 30 June 2013 which illustrates the financial impact of the Acquisition on the results of the Group assuming that the Acquisition had taken place on 1 January 2013. The unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2013, extracted from the interim report of the Group for the six months ended 30 June 2013; and
- (b) the consolidated statement of profit or loss and other comprehensive income of the Target Group for the six months ended 30 June 2013, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

APPENDIX 3
PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the six months ended 30 June 2013 or for any future financial period.

	The Group	Target Group	Pro forma adjustments	Notes	The Enlarged Group	Notes
	HK\$'000	HK\$'000	HK\$'000		HK\$'000	
Revenue	609,220	278,246	(137,908)	(1)	749,558	
Property and hotel operating expenses	(171,640)	(121,387)	91,406 (3,110)	(1) (2)	(204,731)	
Net rental and hotel operating income	437,580	156,859			544,827	
Manager's base fee	(31,543)	—	(8,701)	(3)	(40,244)	
Foreign currency exchange loss	(139)	—			(139)	
Other income	1,230	18			1,248	
Trust expenses	(5,397)	—	(1,015) (58,490)	(4) (4)	(64,902)	
Change in fair value of investment properties	1,957,965	2,749,000			4,706,965	
Change in fair value of derivative financial instruments	107,216	—			107,216	
Gain on disposal of hotel and serviced suite property	—	—	6,068	(1)	6,068	
Gain on disposal of investment properties	897	—			897	
Finance costs	(76,390)	(48,708)	599 (9,039)	(5) (6)	(133,538)	(11)
Profit before taxation and transactions with unitholders	2,391,419	2,857,169			5,128,398	
Income tax expense	(63,402)	(18,670)	18,670 (17,699)	(7) (7)	(81,101)	
Profit for the period, before transactions with unitholders	2,328,017	2,838,499			5,047,297	
Distributions to unitholders	(306,965)	—	(41,457)	(8)	(348,422)	
Profit for the period, after transactions with unitholders	2,021,052	2,838,499			4,698,875	
Other comprehensive income — item that may be reclassified subsequently to profit or loss						
Net gain on derivative financial instruments under cash flow hedge	28,183	—			28,183	
Total comprehensive income for the period	2,049,235	2,838,499			4,727,058	
Income available for distribution	306,965	89,499	(48,042)	(9)	348,422	
Units in issue and to be issued	1,704,730,532		10,258,456	(10)	1,714,988,988	(11)
Distribution per unit (HK cents)	18.00				20.32	(11)

Notes:

1. The adjustment represents the exclusion of profit or loss items relating to hotel and serviced suites operations assuming that the related operations had been transferred to fellow subsidiary of TSW at 1 January 2013.
2. Adjustments to reflect expenses which would be charged by the Manager or property manager for the management of the Kingswood Ginza Property in accordance with the Trust Deed or other relevant agreements. These expenses comprise:
 - (a) the payment of management fee to the property manager of HK\$3,298,000, which is calculated at 3% per annum of the gross property revenue of Kingswood Ginza Property pursuant to the agreement entered into between the Manager of Fortune REIT and property manager ("**Property Management Agreement**");
 - (b) the payment of car park management fee of HK\$579,000, which is calculated at 9.5% per annum of the gross car park income of Kingswood Ginza Property pursuant to the agreement entered into between the Manager of Fortune REIT and the car park management company;
 - (c) the payment of Manager's performance fee of HK\$3,317,000, which is calculated at 3% per annum of the net property income of Kingswood Ginza Property pursuant to the Trust Deed dated 4 July 2003 (as amended) (the "**Trust Deed**");
 - (d) the payment of leasing commission to property manager of HK\$2,057,000, which is calculated pursuant to the Property Management Agreement; and
 - (e) reversal of leasing commission fees of HK\$6,141,000, charged by a subsidiary of Cheung Kong (Holdings) Limited.
3. The adjustment represents the payment of Manager's base fee of HK\$8,701,000, which is calculated at 0.3% per annum on the value of Kingswood Ginza Property pursuant to the Trust Deed.
4. The adjustment represents the (i) payment of trustee fee to the trustee of Fortune REIT at 0.035% per annum on the value of Kingswood Ginza Property of HK\$1,015,000; and (ii) payment of acquisition fee to the Manager of Fortune REIT at 1% on the value of Kingswood Ginza Property of HK\$58,490,000 pursuant to the Trust Deed.
5. The adjustment represents (i) the reversal of borrowing costs on loan from a fellow subsidiary of HK\$48,708,000; and (ii) the payment of borrowing costs of HK\$48,109,000 on the New Facilities which is calculated at HIBOR plus margin on the total borrowings of HK\$5,227,000,000 under the New Facilities.
6. The adjustment represents amortisation of front end fee on the New Facilities for the six months ended 30 June 2013 of HK\$9,039,000.
7. The adjustment represents:
 - (a) reversal of the income tax expense of the Target Group which is calculated based on the profit before tax including the hotel and serviced suites operations at the tax rate of 16.5%; and
 - (b) provision for income tax expense of the Target Group after taking into account of (i) the transfer of the hotel and serviced suites operations to a fellow subsidiary of TSW as mentioned in note (1) above; and (ii) the pro forma adjustments as mentioned in notes (2) and (5) above.
8. The adjustment represents the additional distribution to unitholders after the Acquisition, which is based on 100% of the income available for distribution for the Target Group pursuant to Fortune REIT's distribution policy. The balance represents profit for the period, after transaction with unitholders under the Target Group of HK\$2,838,499,000 excluding change in fair value of investment properties of HK\$2,749,000,000 and gain on disposal of hotel and serviced suite property of HK\$6,068,000 plus the pro forma adjustments mentioned in notes (1), (2), (5) and (7) above.

9. Income available for distribution in respect of the Target Group is determined in accordance with Fortune REIT's computation method, that is, profit for the period, before transactions with unitholders after adjusting Manager's base fee and acquisition fee, trustee fee, change in fair values of investment properties and derivative financial instruments, amortisation of front end fees, foreign currency exchange gain and other non-tax deductible trust expenses/income. Accordingly, the adjustment of HK\$48,042,000 to income available for distribution represents the effect from the pro forma adjustments mentioned in notes (1), (2), (5) and (7) above, excluding gain on disposal of hotel and serviced suite property of HK\$6,068,000.
10. The adjustment represents the units of Fortune REIT to be issued for the settlement of the following fees based on market price per unit of Fortune REIT as at 27 August 2013, the Latest Practicable Date, of HK\$6.55, being the closing market price per unit of Fortune REIT quoted from The Stock Exchange of Hong Kong Limited:
 - (a) Manager's base fee as mentioned in note (3) above; and
 - (b) Acquisition fee payable as mentioned in note (4) above.
11. For the purpose of calculating the distribution per unit ("DPU") of the Enlarged Group as above, the New Facilities is assumed to be fully drawn down for the Acquisition and the units in issue and to be issued does not take into account of units issued in the Unit Placement. Had the 142,962,000 units issued in the Unit Placement and reduction in interest expenses of HK\$1,578,000 as a result of the reduction of New Facilities to be drawn by the Group at the time of the Acquisition, the income available for distribution and DPU of the Enlarged Group would be approximately HK\$350,000,000 and 18.84 HK cents respectively.
12. For the purpose of preparing the pro forma consolidated statement of profit or loss and other comprehensive income, it is assumed that there is no change in fair value of the Target Group's completed properties for sale to be acquired by the Group for rental purpose for the six months ended 30 June 2013. The Manager of Fortune REIT considers that to include pro forma adjustment for change in fair value of such properties in the pro forma consolidated statement of profit or loss and other comprehensive income is not meaningful as changes in fair value of investment properties have no impact on income available for distribution.

The following is the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2012 which illustrates the financial impact of the Acquisition on the results of the Group assuming that the Acquisition had taken place on 1 January 2012. The unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group has been prepared based on:

- (a) the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2012, extracted from the annual report of the Group for the year ended 31 December 2012; and
- (b) the consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2012, extracted from the Accountants' Report set out in Appendix 2 of the Circular.

APPENDIX 3
PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the year ended 31 December 2012 or for any future financial period.

	The Group	Target Group	Pro forma adjustments	Notes	The Enlarged Group	Notes
	HK\$'000	HK\$'000	HK\$'000		HK\$'000	
Revenue	1,113,696	544,122	(275,272)	(1)	1,382,546	
Property and hotel operating expenses	(325,421)	(232,255)	173,583 (5,214)	(1) (2)	(389,307)	
Net rental and hotel operating income	788,275	311,867			993,239	
Manager's base fee	(57,947)	—	(17,547)	(3)	(75,494)	
Foreign currency exchange gain	205	—			205	
Other income	6,011	578			6,589	
Trust expenses	(30,619)	—	(2,047) (58,490)	(4) (4)	(91,156)	
Change in fair value of investment properties	1,796,263	218,946			2,015,209	
Change in fair value of derivative financial instruments	(4,613)	—			(4,613)	
Loss on disposal of hotel and serviced suite property	—	—	(24,049)	(1)	(24,049)	
Finance costs	(147,118)	(99,785)	2,769 (18,225)	(5) (6)	(262,359)	(11)
Profit before taxation and transactions with unitholders	2,350,457	431,606			2,557,571	
Income tax expense	(112,078)	(37,009)	37,009 (33,914)	(7) (7)	(145,992)	
Profit for the year, before transactions with unitholders	2,238,379	394,597			2,411,579	
Distributions to unitholders	(549,462)	—	(74,612)	(8)	(624,074)	
Profit for the year, after transactions with unitholders	1,688,917	394,597			1,787,505	
Other comprehensive income — item that may be reclassified subsequently to profit or loss						
Net loss on derivative financial instruments under cash flow hedge	(15,925)	—			(15,925)	
Total comprehensive income for the period	1,672,992	394,597			1,771,580	
Income available for distribution	549,462	175,651	(101,039)	(9)	624,074	
Units in issue and to be issued	1,700,225,414		11,608,930	(10)	1,711,834,344	(11)
Distribution per unit (HK cents)	32.35				36.46	(11)

Notes:

1. The adjustment represents the exclusion of profit or loss items relating to hotel and serviced suites operations assuming that the related operations had been transferred to fellow subsidiary of TSW at 1 January 2012.
2. Adjustments to reflect expenses which would be charged by the Manager or property manager for the management of the Kingswood Ginza Property in accordance with the Trust Deed or other relevant agreements. These expenses comprise:
 - (a) the payment of management fee to the property manager of HK\$6,088,000, which is calculated at 3% per annum of the gross property revenue of Kingswood Ginza Property pursuant to the Property Management Agreement;
 - (b) the payment of car park management fee of HK\$1,058,000, which is calculated at 9.5% per annum of the gross car park income of Kingswood Ginza Property pursuant to the agreement entered into between the Manager of Fortune REIT and the car park management company;
 - (c) the payment of Manager's performance fee of HK\$6,339,000, which is calculated at 3% per annum of the net property income of Kingswood Ginza Property pursuant to the Trust Deed;
 - (d) the payment of leasing commission to property manager of HK\$3,060,000, which is calculated pursuant to the Property Management Agreement; and
 - (e) reversal of leasing commission fees of HK\$11,331,000, charged by a subsidiary of Cheung Kong (Holdings) Limited.
3. The adjustment represents the payment of Manager's base fee of HK\$17,547,000, which is calculated at 0.3% per annum on the value of Kingswood Ginza Property pursuant to the Trust Deed.
4. The adjustment represents the (i) payment of trustee fee to the trustee of Fortune REIT at 0.035% per annum on the value of Kingswood Ginza Property of HK\$2,047,000; and (ii) payment of acquisition fee to the Manager of Fortune REIT at 1% on the value of Kingswood Ginza Property of HK\$58,490,000 pursuant to the Trust Deed.
5. The adjustment represents (i) the reversal of borrowing costs on loan from a fellow subsidiary and amount due to immediate holding company of HK\$99,785,000; and (ii) the payment of borrowing costs of HK\$97,016,000 on the New Facilities which is calculated at HIBOR plus margin on the total borrowings of HK\$5,227,000,000 under the New Facilities.
6. The adjustment represents amortisation of front end fee on the New Facilities for the year ended 31 December 2012 of HK\$18,225,000.
7. The adjustment represents:
 - (a) reversal of the income tax expense of the Target Group which is calculated based on the profit before tax including the hotel and serviced suites operations at the tax rate of 16.5%; and
 - (b) provision for income tax expense of the Target Group after taking into account of (i) the transfer of the hotel and serviced suites operations to a fellow subsidiary of TSW as mentioned in note (1) above; and (ii) the pro forma adjustments as mentioned in notes (2) and (5) above.
8. The adjustment represents the additional distribution to unitholders after the Acquisition, which is based on 100% of the income available for distribution for the Target Group pursuant to Fortune REIT's distribution policy. The balance represents profit for the period, after transaction with unitholders under the Target Group of HK\$394,597,000 excluding change in fair value of investment properties of HK\$218,946,000 and loss on disposal of hotel and serviced suite property of HK\$24,049,000 plus the pro forma adjustments mentioned in notes (1), (2), (5) and (7) above.

9. Income available for distribution in respect of the Target Group is determined in accordance with Fortune REIT's computation method, that is, profit for the year, before transactions with unitholders after adjusting Manager's base fee and acquisition fee, trustee fee, change in fair values of investment properties and derivative financial instruments, amortisation of front end fees, foreign currency exchange gain and other non-tax deductible trust expenses/income. Accordingly, the adjustment of HK\$101,039,000 to income available for distribution represents the effect from the pro forma adjustments mentioned in notes (1), (2), (5) and (7) above, excluding loss on disposal of hotel and serviced suite property of HK\$24,049,000.
10. The adjustment represents the units of Fortune REIT to be issued for the settlement of the following fees based on market price per unit of Fortune REIT as at 27 August 2013, the Latest Practicable Date, of HK\$6.55, being the closing market price per unit of Fortune REIT quoted from The Stock Exchange of Hong Kong Limited:
 - (a) Manager's base fee as mentioned in note (3) above; and
 - (b) Acquisition fee payable as mentioned in note (4) above.
11. For the purpose of calculating the distribution per unit ("DPU") of the Enlarged Group as above, the New Facilities is assumed to be fully drawn for the Acquisition and the units in issue and to be issued does not take into account of units issued in the Unit Placement. Had the 142,962,000 units issued in the Unit Placement and reduction in interest expenses of HK\$770,000 as a result of reduction of New Facilities to be drawn by the Group at the time of the Acquisition, the income available for distribution and DPU of the Enlarged Group would be approximately HK\$624,844,000 and 33.69 HK cents respectively.
12. For the purpose of preparing the pro forma consolidated statement of profit or loss and other comprehensive income, it is assumed that there is no change in fair value of the Target Group's completed properties for sale to be acquired by the Group for rental purpose for the year ended 31 December 2012. The Manager of Fortune REIT considers that to include pro forma adjustment for change in fair value of such properties in the pro forma consolidated statement of profit or loss and other comprehensive income is not meaningful as changes in fair value of investment properties have no impact on income available for distribution.

A. JLL PROPERTY VALUATION REPORT

The following is the text of the valuation report received from Jones Lang LaSalle Limited, an Independent Property Valuer, prepared for the purpose of inclusion in this Circular, in connection with the valuation of the Kingswood Ginza Property as at 30 June 2013.



Jones Lang LaSalle Limited
Valuation Advisory Services
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2968 0078
Licence No: C-003464

仲量聯行有限公司
物業估價部
香港皇后大道東1號太古廣場三座6樓
電話 +852 2846 5000 傳真 +852 2968 0078
牌照號碼: C-003464

26 July 2013

HSBC Institutional Trust Services (Singapore) Limited
(As Trustee of Fortune Real Estate Investment Trust)
21 Collyer Quay
#10-02, HSBC Building
Singapore 049320

1.0 INTRODUCTION

1.1 Instructions

We refer to the instruction from **HSBC Institutional Trust Services (Singapore) Limited** ("**Trustee**"), acting as the Trustee of Fortune Real Estate Investment Trust ("**Fortune REIT**") to conduct a market valuation in relation to the property interest as set out in Section 1.2 ("**the Property**") for acquisition purpose.

1.2 The Property Interest

The Property identified to us for this valuation comprises the following:

(a) *Tin Shui Wai Town Lot No.4*

- (i) The Commercial Development in Area 20 and Area 23, Nos. 12 and 18 Tin Yan Road, Yuen Long, New Territories (including those parts of the development (other than the Hotel Development) constructed for shops/commercial/restaurant use and loading/unloading spaces as shown on the plans annexed to the approved form of Deed of Mutual Covenant and Management Agreement and thereon coloured green).
- (ii) (a) 62 Commercial Carparking Spaces (Nos.5 to 59 and 63 to 69) at Basement 1 beneath Area 20 of the development; (b) 194 Commercial Carparking Spaces (Nos.1 to 194) at Basement 2 beneath Area 20 of the development; (c) 31 Commercial Carparking Spaces (Nos.1 to 12, 14 to 28 and 33 to 36) at Basement 1 beneath Area 23 of the development; and (d) 317 Commercial Carparking Spaces (Nos.1 to 111 and 113 to 318) at Basement 2 beneath Area 23 of the development.
- (iii) Common Areas and Common Service Facilities of the development.

(b) The Remaining Portion of Tin Shui Wai Town Lot No.1

- (i) Portion A on Ground Floor of the Commercial Development, Locwood Court of Kingswood Villas, No.1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories.
- (ii) External Wall of Portion A on Ground Floor of the Commercial Development, Locwood Court of Kingswood Villas, No.1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories.
- (iii) The Remaining Portion of the External Wall of the Commercial Development, Locwood Court of Kingswood Villas, No.1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories.
- (iv) "Reserve Shares" of Locwood Court of Kingswood Villas, No.1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories under the Deed of Mutual Covenant Memorial No. YL508827.
- (v) Common Areas and Common Service Facilities (other than the Refuse Collection Chamber), Locwood Court of Kingswood Villas, No.1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories.

(c) The Remaining Portion of Tin Shui Wai Town Lot No.2

The Kindergarten Premises and 5 Kindergarten Car Parking Spaces (Nos.K1 to K5), 2 Kindergarten Loading and Unloading Bays on Ground Floor and Common Areas and Common Service Facilities, Sherwood Court of Kingswood Villas, No.3 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories.

(d) The Remaining Portion of Tin Shui Wai Town Lot No.3

The Kindergarten Premises and Common Areas and Common Service Facilities, Chestwood Court of Kingswood Villas, No.8 Tin Shui Road, Tin Shui Wai, Yuen Long, New Territories.

(e) The Remaining Portion of Tin Shui Wai Town Lot No.5

Common Areas and Common Service Facilities, Lynwood Court, Kingswood Villas, No. 3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories.

(f) Tin Shui Wai Town Lot No.6

- (i) Kindergarten A, Maywood Court of Kingswood Villas, No.9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (ii) Kindergarten B, Maywood Court of Kingswood Villas, No.9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (iii) 8 Kindergarten Car Parking Spaces at Basement, Maywood Court of Kingswood Villas, No.9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (iv) Common Areas and Common Service Facilities, Maywood Court of Kingswood Villas, No.9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.

(g) *The Remaining Portion of Tin Shui Wai Town Lot No.7*

- (i) The Kindergarten Premises, Kenswood Court of Kingswood Villas, No.2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (ii) 5 Kindergarten Car Parking Spaces on Ground Floor, Kenswood Court of Kingswood Villas, No.2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (iii) 2 Kindergarten Loading and Unloading Bays on Ground Floor, Kenswood Court of Kingswood Villas, No.2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.
- (iv) Common Areas and Facilities, Kenswood Court of Kingswood Villas, No.2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories.

1.3 Source of Information

We have relied to a considerable extent on the information provided by ARA Asset Management (Fortune) Limited (As Manager of Fortune Real Estate Investment Trust) ("**ARA**") and have accepted advice given to us on such matters as identification of the Property, planning approvals, statutory notices, easements, tenure, occupation, floor plans, floor areas, tenancy schedule and all other relevant matters.

In the course of our valuation, we have also made reference to inter alia, the following information provided by ARA:

- 1. Copy of rent roll as at 30 June 2013;
- 2. Copy of future tenancies dated 1 July 2013;
- 3. Copy of turnover rent & atrium income from July 2012 to June 2013;
- 4. Copy of carpark income & expenses from July 2012 to June 2013;
- 5. Copy of vacancy report as at 30 June 2013;
- 6. Copy of layout plans of the Property;
- 7. Copy of the executed Deed of Mutual Covenant and Management Agreement in respect of Tin Shui Wai Town Lot No. 4.

Dimensions, measurements and areas included in the report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken. We have not been instructed to independently verify the information provided to us. Our valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of the valuation may be affected.

We have not seen original planning and/or development and occupation consents. We have assumed that the Property has been erected, being occupied and used in accordance with such consents and that there are no outstanding statutory notices.

2.0 BASIS OF VALUATION

All work is carried out in accordance with the "HKIS Valuation Standards 2012 Edition" published by The Hong Kong Institute of Surveyors ("HKIS"). If the HKIS Valuation Standards are silent on subjects requiring guidance, we refer to "RICS Valuation — Professional Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Council ("IVSC"), as appropriate, subject to variation to meet local established law, custom, practice and market conditions with the RICS Valuation — Professional Standards prevailing over IVSC's International Valuation Standards to the extent of any inconsistency. Unless otherwise stated, our valuations are undertaken as External Valuers as defined in the HKIS Valuation Standards.

Our valuation is made on the basis of Market Value adopted by the HKIS, set out as:

"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation presented in the report would represent 100% interest of the Property and not the share holdings of the company holding the property interest hereof.

3.0 VALUATION METHODOLOGIES

We have made use of the Income Capitalisation Method cross-referenced with the Direct Comparison Method.

3.1 Income Capitalisation Method

The income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The appropriate adjustments/deductions for rent free period, ongoing vacancy voids/marketing periods and non-recoverable expenses for the vacant space have been allowed.

The income capitalisation method can more accurately reflect these property specific factors by utilising various specific assumptions which have been derived via analysis of market evidence. The ability to apply these assumptions in the capitalisation method is by far more appropriate for valuing an investment property where investors' emphasis on delivering returns is of paramount importance.

3.2 Direct Comparison Method

The direct comparison method is the most widely used method of valuation in Hong Kong and is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased. These premises are generally located in the surrounding areas or in another market which is comparable to the properties. However, because of the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative and quantitative differences that may affect the price/rental likely to be achieved by the properties under consideration.

Factors such as tenants covenants, trade mix are difficult to be quantified in the overall unit value of the comparables. Furthermore, good comparables may not be readily available in the market. In the light of the characteristics of the Property, we have therefore placed more weighting on the reliance on the income capitalisation method in arriving at our valuation conclusion.

3.3 Valuation Reconciliation

The results of the two valuation methods will be reconciled and the assessed value will be analysed in terms of initial passing yield and on a dollar per square foot basis.

4.0 VALUATION ASSUMPTIONS

4.1 Valuation Assumptions

Our report is qualified by certain assumptions, definitions and limiting conditions as set out in our General Principles of Valuation, a copy of which is attached as Appendix 1.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting sales. Unless otherwise stated, it is assumed that the Property is free of encumbrances, restrictions and outgoings of an onerous nature which could affect the capital values of the properties.

4.2 Title Investigation and Encumbrances

We have conducted land searches of the Property with the Land Registry. However, we have not examined the original documents to verify ownership or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

4.3 Property Inspection

We have inspected the exterior, and where possible the interior of the Property on 15 July 2013.

We have not conducted formal site and structural surveys and, as such, we cannot report that the Property is free from rot, infestation or any other structural defects. We have not carried out a building survey, nor have we inspected those parts of the Property which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the services.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Property, or has since been incorporated, and we are therefore unable to report that the Property are free from risk in this respect. For the purpose of this valuation we have assumed that such investigations would not disclose the presence of any such material to any significant extent.

4.4 Site Investigation

We have not carried out any investigations on site in order to determine the suitability of ground conditions and services etc. for future redevelopment, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and that where developments are contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. In the course of our assessments, we have assumed that no contamination affecting the Property or the neighbouring land. However, should it be established subsequently that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use, we reserve the right to adjust the values reported herein.

4.5 Plant and Machinery

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded in our valuation.

4.6 Telecommunication Facilities

We have assumed that all telecommunication facilities at the Property are permitted and that all necessary approvals have been obtained from the relevant authorities.

4.7 Master Layout Plan

Our valuation of the Property is made on the assumption that the uses of the Property are in conformity of the Master Layout Plan approved under New Grant No. YL3466.

5.0 DISCLOSURE OF INTEREST

Jones Lang LaSalle is unaware of any of our business, relationship or interest is in real, potential or apparent conflict with the performance required for the above-mentioned assignment.

6.0 SATISFACTION OF PROPERTY VALUER CRITERIA IN REIT CODE

Jones Lang LaSalle and the qualifications of directors of our firm, are in a position to fulfill and comply fully with paragraphs 6.4, 6.5, 6.6 and 6.7 of the Code on Real Estate Investment Trust ("REIT Code") and paragraph 8.3 of Appendix 6 to the Code on Collective Investment Schemes of Singapore.

7.0 MARKET OVERVIEW

7.1 General Overview

On the back of restrictive policy measures, investment activity remained subdued in general. Leasing demand turned slightly more active, supporting rental growth across all property sectors except for the luxury residential market where rents remained stable.

The summer holiday should help boost domestic consumption and bring more tourists to Hong Kong in 3Q13. According to the Hong Kong Tourism Board, the number of tourists between June and August is expected to grow in the range of 5-8% year-on-year, while tourist arrivals from Mainland China are also expected to continue growing. Bolstered by strong demand from Mainland tourists, retail sales are expected to show a double-digit growth in 2013 compared to 9.8% in 2012. On the back of strong retail sales growth, we anticipate retail rents should continue to rise in 2013.

7.2 Retail Supply

The Kai Tak Cruise Terminal commenced operations in mid-June and marketing for the retail space (60,278 sq ft) in the terminal — aimed mainly at duty free and food and beverages retailers — has also kicked off. The New World Centre Palace Mall (141,439 sq ft) will be demolished in 2014 after SOGO's lease ends. It will be redeveloped together with the New World Centre, which was demolished in 2010, into a new mixed use building comprising a hotel, serviced apartments, offices and retail spaces. The development is expected to complete in 2017.

7.3 Retail Demand

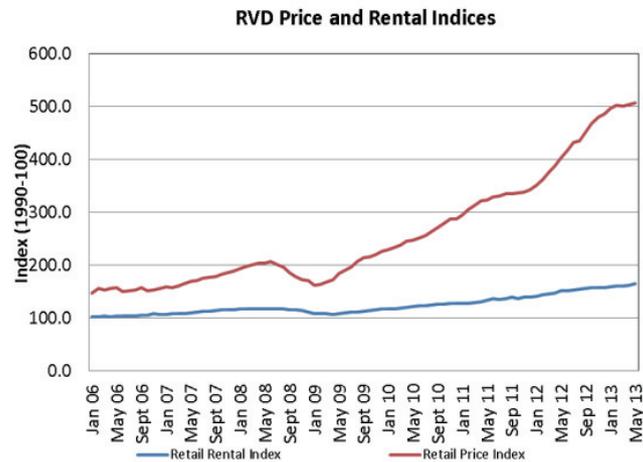
Retail sales continued to display strength with growth in the April-May period of 16.7% year-on-year compared to 13.9% in the first quarter of 2013. The key driver was a surge in the sale of jewellery and watches, which were up by 51.4% year-on-year in April-May due to the correction of gold prices. Total tourist arrivals were up by 12.6% year-on-year in the April-May period. Edged down slightly from the 13.5% year-on-year growth recorded in the first quarter of 2013.

Due to the sustained growth in retail sales, most retailers remained cautiously optimistic towards their expansion plans. However, in spite of the persistent growth in retail demand, some retailers find the current rental level stretching their profitability and are therefore opting to relocate to decentralised locations.

7.4 Price and Rental Movements

According to JLL Research Department, sustained demand and tight supply helped maintain an upward trend for prime shopping centres rents in the second quarter of 2013. Rents for premium prime shopping centres rose 1.8% quarter-on-quarter, while that of overall prime shopping centres was up 1.4% quarter-on-quarter. Already at elevated levels, rental growth for high street shops remained subdued, rising only 1.5% quarter-on-quarter after 1% rental growth in the first quarter of 2013, but compared to 14.5% for the full year 2012.

The following graph shows the Retail Rental and Price Indices published by the Rating and Valuation Department ("R&VD") recording the movements of rental and capital values of retail premises since 2006. The sector recorded year-on-year growths of approximately 9.5% and 25.9% in rental and capital values respectively for May 2013.



Source: Rating & Valuation Department

7.5 Major Retail Transactions

The investment market, especially for high street shops, remained quiet as investors reacted to higher stamp duties and preferred to take a wait-and-see attitude. Only a few transactions of note were recorded this quarter. According to R&VD Retail Price Index, capital values of retail premises continued to rise mildly, showing an approximate 1.2% increment from March to May 2013.

8.0 VALUATION

We are of the opinion that the market value of the unencumbered leasehold interest of the Property, subject to the existing tenancies, as at 30 June 2013, was in the sum of **HK\$5,858,000,000 (HONG KONG DOLLARS FIVE BILLION EIGHT HUNDRED AND FIFTY EIGHT MILLION)**.

9.0 CONVERSION FACTORS**Conversion factors**

1 square metre
1 metre

= 10.764 square feet
= 3.2808 feet

Yours faithfully
For and on behalf of
Jones Lang LaSalle Limited

Dorothy Chow BSc(Hons), MSc, MHKIS, MRICS, RPS (GP)
National Director
Licence No.: E-182969

* Ms. Dorothy Chow, MHKIS, MRICS, RPS(GP), is a qualified general practice surveyor and has 16 years of experience in the valuation of properties in Hong Kong.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of Occupancy</u>	<u>Market Value as at 30 June 2013</u>
Commercial Development (including Loading and Unloading Spaces), 604 Parking Spaces on Basement 1 and Basement 2 Floors and Common Areas and Common Service Facilities of Kingswood Ginza Phases 1 and 2, Nos. 12 and 18 Tin Yan Road, Tin Shui Wai, Yuen Long, New Territories (the " Kingswood Ginza Mall ")	<p>Kingswood Villas ("the Development") is a comprehensive residential development with associated commercial, hotel, recreational and car parking facilities completed in the 1990s.</p> <p>The Kingswood Ginza Property comprises a commercial development (including loading and unloading spaces) known as Kingswood Ginza, a retail shop and 5 kindergartens with ancillary parking spaces, external walls and reserve shares in the Development.</p> <p>Details of the Kingswood Ginza Property are set out below:—</p> <p>The Kingswood Ginza Mall Comprises the commercial development (including loading and unloading spaces) known as Kingswood Ginza which includes a shopping arcade on Ground, 1st and 2nd Floors, ancillary areas on 3rd and 5th floors, 604 car parking spaces on Basement 1 and 2 Floors and Common Areas and Common Service Facilities. This property excludes all those common areas and the hotel development.</p> <p>The Locwood Court Property Comprises a retail shop known as Portion A on Ground Floor together with two portions of external walls of the Commercial Development and Common Areas and Common Service Facilities in Locwood Court of Kingswood Villas. This property also includes the reserve shares of Locwood Court.</p>	<p>According to the Tenancy List as of 30 June 2013, the Kingswood Ginza Property was let under various tenancies mostly of two to three years with the latest expiry date in June 2016.</p> <p>The total monthly passing rent receivable for the Kingswood Ginza Property was approximately HK\$18,822,000 (inclusive of pre-committed rent of approximately HK\$723,500, monthly atrium incomes of HK\$58,500, average monthly turnover rent of HK\$707,600 from July 2012 to June 2013) exclusive of management fees, air-conditioning charges, government rates and other outgoings as at the Date of Valuation.</p> <p>As at date of valuation, approximately 635,139 sq ft (i.e. 95.5%) of the total area are leased to various tenants.</p> <p>The average monthly net car park income for the Kingswood Ginza Property from July 2012 to June 2013 was approximately HK\$606,800.</p>	<p>HK\$ 5,858,000,000</p> <p>(HONG KONG DOLLARS FIVE BILLION EIGHT HUNDRED AND FIFTY EIGHT MILLION)</p> <p>Estimated Net Property Yield: 4.0%</p> <p>Capitalisation Rate: 4.6%</p>
Portion A on Ground Floor and External Wall of Portion A on Ground Floor of Commercial Development, Remaining Portion of External Wall of Commercial Development, Reserve Shares and Common Areas and Common Service Facilities of Locwood Court, Kingswood Villas, No. 1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the " Locwood Court Property ")			
Kindergarten Premises, 5 Kindergarten Car Parking Spaces (Nos. K1-K5), 2 Kindergarten Loading and Unloading Bays on Ground Floor and Common Areas and Common Service Facilities of Sherwood Court, Kingswood Villas, No. 3 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the " Sherwood Court Property ")			

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of Occupancy</u>	<u>Market Value as at 30 June 2013</u>
Kindergarten and Common Areas and Common Service Facilities of Chestwood Court, Kingswood Villas, No. 8 Tin Shui Road, Tin Shui Wai, Yuen Long, New Territories (the " Chestwood Court Property ")	The Sherwood Court Property Comprises a kindergarten premises, 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor, and Common Areas and Common Service Facilities in Sherwood Court of Kingswood Villas.	—	—
Kindergarten A, Kindergarten B, Kindergarten Car Parking Spaces Nos. 1, 2, 3, 4, 5, 6, 7 and 8 at Basement and Common Areas and Common Service Facilities of Maywood Court, Kingswood Villas, No. 9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the " Maywood Court Property ")	The Chestwood Court Property Comprises a kindergarten and Common Areas and Common Service Facilities in Chestwood Court of Kingswood Villas.		
Kindergarten Premises, 5 Kindergarten Car Parking Spaces on Ground Floor, 2 Kindergarten Loading & Unloading Bays on Ground Floor and Common Areas and Facilities of Kenswood Court, Kingswood Villas, No. 2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the " Kenswood Court Property ")	The Maywood Court Property Comprises two kindergartens known as Kindergarten A and Kindergarten B, 8 kindergarten car parking spaces at Basement and Common Areas and Common Service Facilities in Maywood Court of Kingswood Villas.		
Common Areas and Common Service Facilities of Lynwood Court, Kingswood Villas, No. 3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories (the " Lynwood Court Property ")	The Kenswood Court Property Comprises a kindergarten premises, 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor and Common Areas and Facilities in Kenswood Court of Kingswood Villas.		
	The Lynwood Court Property Comprises the Common Areas and Common Service Facilities of Lynwood Court.		

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of Occupancy</u>	<u>Market Value as at 30 June 2013</u>
(hereinafter collectively referred to as the "Kingswood Ginza Property")	According to the Tenancy List as of 30 June 2013 provided by ARA, the total gross rentable area of the Kingswood Ginza Property is approximately 665,244sq ft (61,802.7sq m).	—	—
106,207/210,546th equal undivided shares of and in Tin Shui Wai Town Lot No. 4	Tin Shui Wai Town Lot Nos. 1, 2, 3, 4, 5, 6 and 7		
9,064/70,000th equal undivided shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 1	are held under New Grant No. 3466 from 1 July 1898 for 99 years and has been extended to expire on 30 June 2047. The current annual government rent payable for the Kingswood Ginza Property is 3% of the rateable value of the property.		
3,646/30,000th equal undivided shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 2			
813/24,000th equal undivided shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 3			
6,906/41,020th equal undivided shares of and in Tin Shui Wai Town Lot No. 6			
3,376/64,694th equal undivided shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 7			
1,842/46,070 equal undivided shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 5			

Notes:

- (1) From our recent search of the Land Registry Records, no Deed of Mutual Covenant has been registered against Tin Shui Wai Town Lot No. 4. We have relied on a copy of the executed Deed of Mutual Covenant and Management Agreement in respect of Tin Shui Wai Town Lot No. 4 provided to us for the identification of the Kingswood Ginza Mall.
- (2) The registered owner of the Kingswood Ginza Property is Tin Shui Wai Development Limited by virtue of New Grant No. 3466 of TSWTL Nos. 1, 2, 3, 4, 5, 6 & 7.

- (3) The Kingswood Ginza Property is currently zoned for Commercial and Residential (Group B) purposes under Tin Shui Wai Outline Zoning Plan No. S/TSW/12 dated 15 July 2008:

Kingswood Ginza Mall	:	Commercial
The Locwood Court Property	:	Residential (Group B)
The Sherwood Court Property	:	Residential (Group B)
The Chestwood Court Property	:	Residential (Group B)
The Maywood Court Property	:	Residential (Group B)
The Kenswood Court Property	:	Residential (Group B)

- (4) The following encumbrances are registered against the Kingswood Ginza Property upon our recent Land Registry search:

- (a) Deed of Mutual Release vide Memorial No. YL1006436 registered on 24 April 2002.

Except the Kingswood Ginza Mall

- (b) Modification Letter vide Memorial No. YL434322 dated 10 November 1989.
(c) Modification Letter vide Memorial No. YL503886 dated 5 May 1992.
(d) Mortgage to secure general credit facilities in favour of Kobert Limited for all moneys vide Memorial No. YL1025381 dated 22 October 2002.

The Kingswood Ginza Mall

- (e) Letter (with Car Park Layout Plans attached) vide Memorial No. YL839539 dated 5 December 1998.
(f) Occupation Permit No. NT106/98 vide Memorial No. YL843415 dated 24 December 1998.
(g) Letter (with Amended Car Park Layout Plan attached) vide Memorial No. YL844000 dated 5 January 1999.
(h) Occupation Permit (No. NT4/99) vide Memorial No. YL847103 dated 18 January 1999.
(i) Certificate of Compliance from District Lands Office, Yuen Long, vide Memorial No. YL1030741 dated 20 December 2002.
(j) Letter of latest approved car park layout plans vide Memorial No. 11072500470051 dated 25 July 2011.
(k) And Various Tenancy Agreements.

The Locwood Court Property

- (l) Letter with Car Park Layout Plan vide Memorial No. YL449096 dated 29 January 1991.
(m) Modification Letter vide Memorial No. YL503886 dated 5 May 1992.
(n) Occupation Permit No. NT178/91 Re Block 1-7 vide Memorial No. YL505047 dated 19 December 1991.
(o) Deed of Mutual Covenant vide Memorial No. YL508827 registered on 1 July 1992.
(p) Letter with Amended Car Park Layout Plans vide Memorial No. YL532976 dated 26 November 1992.
(q) Occupation Permit vide Memorial No. YL544329 dated 8 October 1992.
(r) Consent to Assign vide Memorial No. YL544330 dated 18 March 1993.
(s) Sub-deed of Mutual Covenant vide Memorial No. YL549706 registered on 30 April 1993.
(t) Letter (Certificate of Compliance) vide Memorial No. YL552222 dated 13 May 1993.

The Sherwood Court Property

- (u) Letter with Car Park Layout Plans attached vide Memorial No. YL497716 dated 10 March 1992.
- (v) Deed Poll with Plan Re Section A and R.P. vide Memorial No. YL508532 dated 26 June 1992.
- (w) Occupation Permit vide Memorial No. YL558992 dated 8 March 1993.
- (x) Letter (Consent to Assign) vide Memorial No. YL558993 dated 20 July 1993.
- (y) Deed of Mutual Covenant vide Memorial No. YL561455 registered on 18 August 1993.
- (z) Deed Poll Re Section B and R.P. vide Memorial No. YL617733 dated 26 January 1995.
- (aa) Certificate of Compliance from District Lands Office, Yuen Long vide Memorial No. YL872358 dated 18 August 1999.

The Chestwood Court Property

- (ab) Letter with Certified Car park Layout Plans attached vide Memorial No. YL517004 dated 17 August 1992.
- (ac) Letter with Amended Car Park Layout Plans vide Memorial No. YL574682 dated 14 December 1993.
- (ad) Occupation Permit No. NT 117/93 dated YL578558 dated 1 September 1993.
- (ae) Consent to Assign vide Memorial No. YL578559 dated 14 January 1994.
- (af) Deed of Mutual Covenant vide Memorial No. YL581265 registered on 8 February 1994.
- (ag) Letter (with Amended Car Park Layout Plans) vide Memorial No. YL602538 dated 25 July 1994.
- (ah) Occupation Permit (No. NT49/94) re Entrance Hall, Management Office Swimming Pools and Ancillary Accommodation vide Memorial No. YL602993 dated 19 April 1994.
- (ai) Consent to Assign vide Memorial No. YL602994 dated 28 July 1994.
- (aj) Letter of Compliance vide Memorial No. YL616396 dated 13 January 1995.
- (ak) Mortgage to secure General Credit Facilities in favour of Kobert Limited for all moneys vide Memorial No. YL1025381 dated 22 October 2002.
- (al) And Various Tenancy Agreement.

The Maywood Court Property

- (am) Modification Letter Re New Grant No. 3466 vide Memorial No. YL573371 dated 27 November 1993.
- (an) Modification Letter from District Lands Officer, Yuen Long to Tin Shui Wai Development Limited vide Memorial No. YL659036 dated 11 December 1995.
- (ao) Letter with Car Park Layout Plan attached vide Memorial No. YL668627 dated 25 March 1996.
- (ap) Occupation Permit (No. NT 226/97) vide Memorial No. YL818164 dated 22 December 1997.
- (ar) Consent to Assign from Lands Department Legal Advisory and Conveyancing Office to (Yuen Long) to Tin Shui Wai Development Limited vide Memorial No. YL818165 dated 17 June 1998.
- (as) Deed of Mutual Covenant (in Duplicate) vide Memorial No. YL820616 registered on 7 July 1998.
- (at) Certificate of Compliance from District Lands Office, Yuen Long vide Memorial No. YL858891 dated 23 April 1999.

The Kenswood Court Property

- (aq) Letter with Car Park Layout Plans vide Memorial YL553297 dated 28 May 1993.
- (au) Modification Letter Re New Grant No. 3466 dated YL573371 dated 27 November 1993.
- (av) Letter with Amended Car Park Layout Plans in favour of the Land Registrar vide Memorial No. YL645211 dated 13 October 1995.
- (ax) Letter (with Amended Car Park Layout Plans attached) Re 584 Residential Car Parks at Basement vide Memorial No. YL621470 dated 24 March 1995.
- (ay) Deed of Mutual Covenant vide Memorial No. YL626029 registered on 8 June 1995.
- (az) Letter with Amended Car Park Layout Plans in favour of The Land Registrar vide Memorial No. YL645211 dated 13 October 1995.
- (ba) Letter (with Amended Car Park Layout Plans attached) vide Memorial No. YL647993 dated 13 November 1995.
- (bb) Certificate of Compliance from District Lands Office, Yuen Long vide Memorial No. YL873069 dated 26 August 1999.

The Lynwood Court Property

- (bc) Letter with Car Park Layout Plans Re TSWTL 5 vide Memorial No. YL582145 dated 16 February 1994.
 - (bd) Letter (with Amended Car Park Layout Plans attached) in favour of the Land Registrar, Yuen Long New Territories Land Registry vide Memorial No. YL678360 dated 2 May 1996.
 - (be) Occupation Permit No. NT12/96 vide Memorial No. YL685031 dated 7 February 1996.
 - (bf) Letter (Consent to Assign) vide Memorial No. YL685032 dated 11 Jul 1996.
 - (bg) Deed of Mutual Covenant vide Memorial No. YL688035 registered on 5 August 1996.
 - (bh) Certificate of Compliance from District Lands Office, Yuen Long vide Memorial No. YL871142 dated 10 August 1999.
- (5) Based on the tenancy information provided, the tenancy profiles (excluding income from miscellaneous spaces, turnover rent, atrium income and parking lots) as at the Valuation Date were set out below:—

Tenancy Commencement Profile

Year	% of Total Gross Rentable Area	% of Total Monthly Rental
2010	10.1%	9.6%
2011	47.0%	42.0%
2012	31.1%	34.2%
2013	11.8%	14.2%
Total	100%	100%

Tenancy Expiry Profile

Year	% of Total Gross Rentable Area	% of Total Monthly Rental
2013	12.8%	17.7%
2014	48.0%	44.7%
2015	30.6%	29.1%
2016	8.6%	8.5%
2017 and beyond	0.0%	0.0%
Total	100%	100%

Tenancy Duration Profile

Year	% of Total Gross Rentable Area	% of Total Monthly Rental
2 years or below	6.2%	13.9%
> 2 years to 3 years	93.0%	85.3%
> 3 years	0.8%	0.8%
Total	100%	100%

Appendix No. 1**GENERAL PRINCIPLES ADOPTED IN THE PREPARATION
AND CONDITIONS THAT APPLY TO AND FORM PART
OF
HONG KONG VALUATIONS AND REPORTS**

This document sets out the general principles upon which our Valuations and Reports are normally prepared, and the conditions that apply to and form part of our Valuations and Reports. They apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, where appropriate, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries. Any variations to these general principles and/or conditions must be confirmed in writing.

Our Valuations and Reports are confidential to, and for the use only of, the party to whom they are addressed and for the stated specific purpose. No responsibility whatsoever is accepted to any third parties who may use or rely on the whole or any part of the contents of any such Valuation or Report. The whole or any part of the Valuation or Report, or reference thereto, must not be published or referred to in any document, statement, circular, or in any communication with third parties, without our prior written approval of the form and context in which it will appear.

1. Valuation Methodology:

All work is carried out in accordance with the "HKIS Valuation Standards 2012 Edition" published by The Hong Kong Institute of Surveyors ("HKIS"). If the HKIS Valuation Standards are silent on subjects requiring guidance, we refer to "RICS Valuation — Professional Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Council ("IVSC"), as appropriate, subject to variation to meet local established law, custom, practice and market conditions with the RICS Valuation -Professional Standards prevailing over IVSC's International Valuation Standards to the extent of any inconsistency. Unless otherwise stated, our valuations are undertaken as External Valuers as defined in the HKIS Valuation Standards.

2. Valuation Basis:

Our valuations are made on the basis of Market Value adopted by the HKIS, set out as:

"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Our valuations are made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture or similar arrangement which would serve to affect the value of the property.

Each valuation is current as at the date of valuation only. The value assessed may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the

generality of preceding half of this paragraph, we do not assume any responsibility or accept liability where this valuation is relied upon after the expiration of three months from the date of valuation.

3. Costs:

No allowances are made in our valuations for dealing with any encumbrances such as charges, mortgages, nor for amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale or disposal.

4. Source of Information:

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarized in our report.

5. Assumptions

Unless we state otherwise in the valuation, our valuation assumes (without investigation on our part), where applicable,

- (a) good and marketable title, and no encumbrance on the property's title which could materially affect its value,
- (b) no encroachment by or on the property and no unauthorized additions or structural alterations (our valuation is made according to the original layout as shown in the Registered Floor Plans or developer's brochure and assumes no outstanding reinstatement costs to be charged on the property),
- (c) no major environmental factor (including contamination) affects the property,
- (d) no deficiencies in the structural integrity of the property and other improvements,
- (e) the property is not affected or required for any public purposes or is to be acquired for a public purpose,
- (f) there are no outstanding statutory orders on the property or the likely possibility of future orders being made by a regulatory authority,
- (g) body corporate records and finances are in a satisfactory order and there are no major financial commitments, orders or levies in respect of any major rectifications, remedial or other works to be undertaken by the body corporate above normal maintenance,
- (h) no material litigation pending relating to the property,
- (i) that the property (and any works thereto) comply with all relevant statutory regulations, including enactments relating to fire regulations,
- (j) no deleterious materials (including by way of example asbestos and calcium chloride)

- (k) ground conditions and services are suitable (including, particularly with respect to agricultural land, no possibility of latent infestation in the soil or of disease which might affect crops or stock at any time in the future) and no extraordinary expenses or delays will be incurred due to archaeological, ecological or environmental matters.

Without affecting the generality of the above, where leases or documents of title or site and building surveys or building report or pest certificate or engineer's certificate or body corporate records are provided to us for the purpose of the valuation, reliance must not be placed on our interpretation thereof of any of these documents.

6. Tenants:

Enquiries as to the financial standing of actual or prospective tenants are not made unless we specifically agree to in writing. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise in writing, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

7. Measurements:

All measurements are carried out in accordance with the "Code of Measuring Practice" booklet published by the HKIS. Unless otherwise stated, we do not physically measure the actual properties or verify the floor areas provided to us, unless we specifically agree in writing to do so, although we make reference to the Registered Floor Plans if available.

8. Jurisdiction:

Unless the parties otherwise agree in writing, all disputes arising out and relating to our valuation shall be finally settled under Hong Kong Law and the parties irrevocably submit to the jurisdiction of the Hong Kong Courts.

B. SAVILLS PROPERTY VALUATION REPORT

The following is the text of the valuation report received from Savills Valuation and Professional Services Limited, an Independent Property Valuer, prepared for the purpose of inclusion in this Circular, in connection with the valuation of the Kingswood Ginza Property as at 30 June 2013.



Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

26 July 2013

ARA Asset Management (Fortune) Limited
(as Manager of Fortune Real Estate Investment Trust)
#16-02, Suntec Tower Four
6 Temasek Boulevard
Singapore 038986

HSBC Institutional Trust Services (Singapore) Limited
(as trustee of Fortune Real Estate Investment Trust)
21 Collyer Quay
#10-02, HSBC Building
Singapore 049320

Dear Sirs

RE: COMMERCIAL DEVELOPMENT (INCLUDING LOADING AND UNLOADING SPACES), 604 PARKING SPACES AND COMMON AREAS AND COMMON SERVICE FACILITIES OF KINGSWOOD GINZA PHASES 1 AND 2, 12 AND 18 TIN YAN ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "KINGSWOOD GINZA MALL");

PORTION A ON GROUND FLOOR AND EXTERNAL WALL OF PORTION A ON GROUND FLOOR OF COMMERCIAL DEVELOPMENT, REMAINING PORTION OF EXTERNAL WALL OF COMMERCIAL DEVELOPMENT, RESERVE SHARES AND COMMON AREAS AND COMMON SERVICE FACILITIES OF LOCWOOD COURT, KINGSWOOD VILLAS, 1 TIN WU ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "LOCWOOD COURT PROPERTY");

KINDERGARTEN PREMISES, 5 KINDERGARTEN CAR PARKING SPACES (NOS. K1-K5), 2 KINDERGARTEN LOADING AND UNLOADING BAYS ON GROUND FLOOR AND COMMON AREAS AND COMMON SERVICE FACILITIES OF SHERWOOD COURT, KINGSWOOD VILLAS, 3 TIN WU ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "SHERWOOD COURT PROPERTY");

KINDERGARTEN AND COMMON AREAS AND COMMON SERVICE FACILITIES OF CHESTWOOD COURT, KINGSWOOD VILLAS, 8 TIN SHUI ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "CHESTWOOD COURT PROPERTY");

KINDERGARTEN A, KINDERGARTEN B, KINDERGARTEN CAR PARKING SPACES NOS. 1, 2, 3, 4, 5, 6, 7 AND 8 AT BASEMENT AND COMMON AREAS AND COMMON SERVICE FACILITIES OF MAYWOOD COURT, KINGSWOOD VILLAS, 9 TIN LUNG ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "MAYWOOD COURT PROPERTY");

KINDERGARTEN PREMISES, 5 KINDERGARTEN CAR PARKING SPACES ON GROUND FLOOR, 2 KINDERGARTEN LOADING & UNLOADING BAYS ON GROUND FLOOR AND COMMON AREAS AND FACILITIES OF KENSWOOD COURT, KINGSWOOD VILLAS, 2 TIN LUNG ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "KENSWOOD COURT PROPERTY"); AND

COMMON AREAS AND COMMON SERVICES FACILITIES OF LYNWOOD COURT, KINGSWOOD VILLAS, 3 TIN KWAI ROAD, TIN SHUI WAI, YUEN LONG, NEW TERRITORIES (THE "LYNWOOD COURT PROPERTY")

(COLLECTIVELY THE "KINGSWOOD GINZA PROPERTY")

In accordance with instructions from the Manager for us to value the Kingswood Ginza Property, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Kingswood Ginza Property as at 30 June 2013 (referred to as the "**Valuation Date**") for the purposes of the proposed acquisition of the Kingswood Ginza Property by the Fortune Real Estate Investment Trust (the "**Fortune REIT**").

Basis of Valuation

Our valuation is our opinion of the market value of the Kingswood Ginza Property which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation is prepared in accordance with Chapter 6.8 of the REIT Code, Section B of Appendix 6 to the Code on Collective Investment Schemes of Singapore and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Valuation Methodologies

In arriving at our opinion of value, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties. In the course of our valuation analysis, we have principally adopted the Income Capitalisation Approach and counter-checked this by the Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalisation Approach is the most appropriate valuation method for assessing the market value of the Kingswood Ginza Property, due to the income driven nature of the Kingswood Ginza Property.

Income capitalisation

The Income Capitalisation Approach is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, Government rent and management fees) of all lettable units of the Kingswood Ginza Property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized for the unexpired term of the Government lease under which the Kingswood Ginza Property is held. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. The summation of the capitalised value of the term income for the leased portion, the capitalized value of the reversion income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of the Kingswood Ginza Property.

The market rentals of all lettable units of the Kingswood Ginza Property are determined by reference to the rentals achieved by other units in the Kingswood Ginza Property and by reference to the lettings of similar properties in the neighbourhood. The capitalisation rate adopted is determined by reference to the yields achieved in analysed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

Direct comparison

As a supporting approach to the valuation, we have also considered the Direct Comparison Approach as a reference check for the valuations arrived from Income Capitalisation Approach. In this regard, comparable sales transactions around the Valuation Date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the Kingswood Ginza Property and comparables in terms of time, location, accessibility, size, age, building quality and condition and the like.

Title Investigations

We have not been provided with any title documents relating to the Kingswood Ginza Property but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

Source of Information

We have relied to a considerable extent on the information provided by ARA Asset Management (Fortune) Limited (As Manager of Fortune Real Estate Investment Trust) ("ARA") and have accepted advice given to us on such matters as identification of the Property, planning approvals, statutory notices, easements, tenure, occupation, floor plans, floor areas, tenancy schedule and all other relevant matters.

In the course of our valuation, we have also made reference to inter alia, the following information provided by ARA:

1. Copy of rent roll as at 30 June 2013;
2. Copy of future tenancies dated 1 July 2013;
3. Copy of turnover rent & atrium income from July 2012 to June 2013;
4. Copy of carpark income & expenses from July 2012 to June 2013;
5. Copy of vacancy report as at 30 June 2013;
6. Copy of layout plans of the Property;
7. Copy of the executed Deed of Mutual Covenant and Management Agreement in respect of Tin Shui Wai Town Lot No. 4.

Valuation Consideration

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as identification of the Property, planning approvals or statutory notices, easements, tenure, occupation, lettings, floor plans, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party, and have been advised by the instructing party that no material facts have been omitted from the information provided.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Kingswood Ginza Property but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have inspected the exterior of the Kingswood Ginza Property and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. Our inspection was carried out by Ms Bonnie Ho, MRICS, MHKIS, RPS(GP) on 20 July 2013. We are not, however, able to report that the Kingswood Ginza Property are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the Kingswood Ginza Property nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Kingswood Ginza Property are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

The reported analyses, opinions and conclusions are subject to the assumptions and limiting conditions stated in our valuation certificate and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Kingswood Ginza Property and are not a related corporation of nor do we have a relationship with the Manager, Underwriters or other party/parties who, Fortune REIT is contracting with. The valuer's compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the Vendor, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

We hereby certify that our valuers undertaking this valuation are authorized to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.

We enclose herewith our valuation certificate.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited

Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Managing Director

* Mr Charles C K Chan, chartered estate surveyor, MSc, FRICS, FHKIS, MCI Arb, RPS(GP), has been a qualified valuer since 1987 and has about 29 years experience in the valuation of properties in Hong Kong.

Enc

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 June 2013</u>
Commercial Development (including Loading and Unloading Spaces), 604 Parking Spaces and Common Areas and Common Service Facilities of Kingswood Ginza Phases 1 and 2, 12 and 18 Tin Yan Road, Tin Shui Wai, Yuen Long, New Territories (the "Kingswood Ginza Mall")	Kingswood Villas is a large-scale private residential development comprising six phases with associated commercial, recreational and car parking facilities completed in 1990s. The Kingswood Ginza Property comprises a commercial development (including loading and unloading spaces) known as Kingswood Ginza, a retail shop and 5 kindergartens with ancillary parking spaces, loading and unloading bays, external walls and reserve shares within Kingswood Villas.	The commercial areas and kindergartens are let under various tenancies for various terms with the last expiring in June 2016, yielding a total monthly rental income of about HK\$16,300,000 exclusive of Government rates and rent, management fees and utility charges. Various miscellaneous spaces and the atrium are let under various licences at a total monthly income of approximately HK\$1,200,000 (inclusive of committed rent for July 2013) exclusive of Government rates and rent, management fees and utility charges.	HK\$5,850,000,000 Estimated Net Property Yield 3.9% Capitalisation Rate 4.5%
Portion A on Ground Floor and External Wall of Portion A on Ground Floor of Commercial Development, Remaining Portion of External Wall of Commercial Development, Reserve Shares and Common Areas and Common Service Facilities of Locwood Court, Kingswood Villas, 1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the "Locwood Court Property")	Details of the Kingswood Ginza Property are set out below: — The Kingswood Ginza Mall comprises the commercial development known as Kingswood Ginza which includes a shopping arcade on Ground, 1st and 2nd Floors, ancillary areas on 3rd and 5th Floors, 604 car parking spaces and certain loading and unloading spaces on Basement 1 and 2 Floors. This property excludes the hotel development;	From July 2012 to June 2013, the Kingswood Ginza Property has an average monthly turnover rent of approximately HK\$700,000. The occupancy rate of the Kingswood Ginza Property as at 30 June 2013 (excluding the car parking spaces and miscellaneous spaces) is 95.5%.	
Kindergarten Premises, 5 Kindergarten Car Parking Spaces (Nos. K1-K5), 2 Kindergarten Loading and Unloading Bays on Ground Floor and Common Areas and Common Service Facilities of Sherwood Court, Kingswood Villas, 3 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the "Sherwood Court Property")	— The Locwood Court Property comprises a retail shop known as Portion A on Ground Floor together with two portions of external walls of the Commercial Development in Locwood Court of Kingswood Villas. This property also includes the reserve shares of Locwood Court;	The car park of Kingswood Ginza Mall are let on hourly and monthly bases with an average net monthly income of about HK\$600,000 from July 2012 to June 2013.	

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 June 2013</u>
Kindergarten and Common Areas and Common Service Facilities of Chestwood Court, Kingswood Villas, 8 Tin Shui Road, Tin Shui Wai, Yuen Long, New Territories (the " Chestwood Court Property ")	— The Sherwood Court Property comprises a kindergarten premises and 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor in Sherwood Court of Kingswood Villas;		
Kindergarten A, Kindergarten B, Kindergarten Car Parking Spaces Nos. 1, 2, 3, 4, 5, 6, 7 and 8 at Basement and Common Areas and Common Service Facilities of Maywood Court, Kingswood Villas, 9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the " Maywood Court Property ")	— The Chestwood Court Property comprises a kindergarten in Chestwood Court of Kingswood Villas; — The Maywood Court Property comprises two kindergartens known as Kindergarten A and Kindergarten B and 8 kindergarten car parking spaces at Basement in Maywood Court of Kingswood Villas; and		
Kindergarten Premises, 5 Kindergarten Car Parking Spaces on Ground Floor, 2 Kindergarten Loading & Unloading Bays on Ground Floor and Common Areas and Facilities of Kenswood Court, Kingswood Villas, 2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the " Kenswood Court Property ")	— The Kenswood Court Property comprises a kindergarten premises and 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor in Kenswood Court of Kingswood Villas.		
Common Areas and Common Services Facilities of Lynwood Court, Kingswood Villas, 3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories (The " Lynwood Court Property ")	The total gross area of the Kingswood Ginza Property is approximately 61,802.68 sq m (665,244 sq ft). The Kingswood Ginza Property comprises various car parking spaces and loading and unloading bays. The details are set out in Note (1).		
(Collectively the " Kingswood Ginza Property ")			

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Market value in existing state as at 30 June 2013</u>
106,207 / 210,546th parts or shares of and in Tin Shui Wai Town Lot No. 4 as per Approved Form of DMC and Management Agreement provided (Re: Kingswood Ginza Mall)	Tin Shui Wai Town Lot Nos. 1, 2, 3, 4, 5, 6 & 7 are all held from the Government under New Grant No. 3466 for a term of 99 years commencing on 1 July 1898 less the last three days and extended to 30 June 2047 without premium but at a revised annual Government rent at 3% of the rateable value.		
9,064 / 70,000th parts or shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 1 (Re: Locwood Court Property)			
3,646 / 30,000th parts or shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 2 (Re: Sherwood Court Property)			
813 / 24,000th parts or shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 3 (Re: Chestwood Court Property)			
6,906 / 41,020th parts or shares of and in Tin Shui Wai Town Lot No. 6 (Re: Maywood Court Property)			
3,376 / 64,694th parts or shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 7 (Re: Kenswood Court Property)			
1,842 / 46,070th parts or shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 5 (Re: Lynwood Court Property)			

Notes:

- (1) The details of the car parking spaces and loading and unloading bays of the Kingswood Ginza Property is summarized as below:—

<u>Property</u>	<u>Floor</u>	<u>No. of Parking Space</u>	<u>Parking Space Details</u>
Kingswood Ginza Phase 1	Basement 1 Basement 2	62 194	Nos. 5-59 and 63-69 Nos. 1-194
Kingswood Ginza Phase 2	Basement 1 Basement 2	31 317	Nos. 1-12, 14-28 and 33-36 Nos. 1-111 and 113-318
Kingswood Ginza Phases 1 & 2	Basement 1	various	Loading and Unloading Spaces as coloured green shown on the Approved Form of DMC and Management Agreement provided
Sherwood Court.	Ground Floor Ground Floor	5 2	Kindergarten Car Parking Spaces Nos. K1-K5 Kindergarten Loading and Unloading Bays
Maywood Court.	Basement	8	Kindergarten Car Parking Spaces Nos. 1-8
Kenswood Court.	Ground Floor Ground Floor	5 2	Kindergarten Car Parking Spaces Kindergarten Loading and Unloading Bays

- (2) The registered owner of the Kingswood Ginza Property is Tin Shui Wai Development Limited.
- (3) The Kingswood Ginza Property all lie within an area under Tin Shui Wai Outline Zoning Plan with various zonings. The zonings are set out below:—

<u>Property</u>	<u>Zoning</u>
Kingswood Ginza Mall	Commercial
Locwood Court Property	Residential (Group B)
Sherwood Court Property	
Chestwood Court Property	
Maywood Court Property	
Kenswood Court Property	
Lynwood Court Property	

- (4) According to the land search records, inter alia, the Kingswood Ginza Property are subject to the following encumbrances:

Kingswood Ginza Mall

- i) Occupation Permit No. NT106/98 vide memorial no. YL843415 dated 24 December 1998;
- ii) Occupation Permit No. NT4/99 vide memorial no. YL847103 dated 18 January 1999;
- iii) Letter Re: Consent for Enter into Agreement for Tenancies and Tenancies or Leases vide memorial no. YL930939 dated 26 November 1998; and
- iv) Certificate of Compliance vide memorial no. YL1030741 dated 20 December 2002.

Locwood Court Property

- i) Deed of Mutual Covenant vide memorial no. YL508827 dated 6 June 1992;
- ii) Occupation Permit vide memorial no. YL544329 dated 8 October 1992;
- iii) Sub-Deed of Mutual Covenant vide memorial no. YL549706 dated 1 April 1993;
- iv) Letter (Certificate of Compliance) vide memorial no. YL552222 dated 13 May 1993; and
- v) Mortgage to Secure General Credit Facilities in favour of Kobert Limited vide memorial no. YL1025381 dated 22 October 2002.

Sherwood Court Property

- i) Occupation Permit vide memorial no. YL558992 dated 8 March 1993;
- ii) Deed of Mutual Covenant vide memorial no. YL561455 dated 26 July 1993;
- iii) Certificate of Compliance vide memorial no. YL872358 dated 18 August 1999; and
- iv) Mortgage to Secure General Credit Facilities in favour of Kobert Limited vide memorial no. YL1025381 dated 22 October 2002.

Chestwood Court Property

- i) Occupation Permit No. NT 117/93 vide memorial no. YL578558 dated 1 September 1993;
- ii) Deed of Mutual Covenant vide memorial no. YL581265 dated 19 January 1994;
- iii) Letter of Compliance vide memorial no. YL616396 dated 13 January 1995; and
- iv) Mortgage to Secure General Credit Facilities in favour of Kobert Limited vide memorial no. YL1025381 dated 22 October 2002.

Maywood Court Property

- i) Occupation Permit No. NT 226/97 vide memorial no. YL818164 dated 22 December 1997;
- ii) Deed of Mutual Covenant (in duplicate) vide memorial no. YL820616 dated 19 June 1998;
- iii) Certificate of Compliance vide memorial no. YL858891 dated 23 April 1999; and
- iv) Mortgage to Secure General Credit Facilities in favour of Kobert Limited vide memorial no. YL1025381 dated 22 October 2002.

Kenswood Court Property

- i) Deed of Mutual Covenant vide memorial no. YL626029 dated 18 May 1995;
- ii) Certificate of Compliance vide memorial no. YL873069 dated 26 August 1999; and
- iii) Mortgage to Secure General Credit Facilities in favour of Kobert Limited vide memorial no. YL1025381 dated 22 October 2002.

Lynwood Court Property

- i) Occupation Permit No. 12/96 vide memorial no. YL685031 dated 7 February 1996;
 - ii) Deed of Mutual Covenant vide memorial no. YL688035 dated 15 July 1996; and
 - iii) Certificate of Compliance vide memorial no. YL871142 dated 10 August 1999.
- (5) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (6) The rentals reported herein are contractual rentals without taking into account rent free periods, if any.

- (7) Based on the tenancy information provided for June 2013, our analysis of the existing tenancy profile (excluding turnover rent, income from car parking spaces, miscellaneous spaces and the atrium) is set out below:—

Occupancy Profile Type	Gross Area (sq ft)	% of total
Leased	635,139	95.6
Vacant	30,105	4.5
Total	665,244	100.0

Tenancy Commencement Profile Year	% of total Gross Area	% of total Monthly Rental
2010	10.1	9.6
2011	47.0	42.0
2012	31.1	34.2
2013	11.8	14.2
Total	100.0	100.0

Tenancy Expiry Profile Year	% of total Gross Area	% of total Monthly Rental
2013	12.8	17.7
2014	48.1	44.7
2015	30.6	29.1
2016	8.5	8.5
2017 and beyond	0.0	0.0
Total	100.0	100.0

Tenancy Duration Profile Tenancy Duration	% of total Gross Area	% of total Monthly Rental
Up to 1 year	0.5	0.6
More than 1 year and up to 2 years	5.8	13.5
More than 2 years and up to 3 years	92.9	85.1
More than 3 years and up to 4 years	0.8	0.8
Total	100.0	100.0

Market Overview

Total stock of private commercial premises¹ in Hong Kong doubled between 1980 and 2012, to 116.9 million sq ft at the end of 2012². In 2011, around 41% of private commercial stock was located in Kowloon, while Hong Kong Island and the New Territories accounted for around 30% and 29% of the remaining commercial stock, respectively.

Negative take-up of retail space was witnessed in 2008, and a number of chain retailers closed in Hong Kong, including Tai Lam and U-Right, both of which closed near the end of that year, due to the demand contraction following the global financial crisis. As a result, vacancy rates increased to 8.7% in 2008. With the subsequent influx of mainland Chinese visitors and the recovering economy favouring the retail market, take-up of retail space rebounded to 450,000 sq ft and 1.5 million sq ft in 2009 and 2010, respectively. Take-up then declined to close to zero and vacancy rates hovered at approximately 8.0% in 2011, given the recent global economic uncertainties and record-high rental rates slowing

¹ 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.

² According to the Rating and Valuation Department, from 2006 onwards private commercial stock figures include properties owned by The Link REIT, which had a total IFA of 10.3 million sq ft in 2006.

leasing activity. On the back of the entry of numerous international retailers, such as Apple, Abercrombie & Fitch, GAP and Forever 21, private commercial take-up rebounded to 1.8 million sq ft and vacancy dropped to 6.9% in 2012.

Between 2013 and 2016, major shopping centre supply is expected to fall to an average of 514,546 sq ft per annum, with 52% of total future supply located in the New Territories. The new shopping centres forecast for completion by 2013 and 2014 are small in scale, with GFAs of less than 150,000 sq ft. Kowloon Development's 686,426 sq ft Ngau Chi Wan project will be the only major retail development completed in Kowloon in 2015. Notably, most of the large-scale shopping centre supply in the New Territories will be the retail podiums of large residential estates.

From 2013 to 2016, there is no private commercial supply scheduled to be completed in Central, while only one project is expected in Wan Chai, the 200 Queen's Road East Project (86,000 sq ft) to be completed in 2015. In Kowloon there is a project at the junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road in Kwun Tong scheduled for completion in 2015. It is a Grade A office project with retail space. However, the retail area is yet to be confirmed.

From 2003 to 2011, private retail rents increased by approximately 55% on the back of the implementation of the IVS, along with the rebound in the local economy.

International retailers leasing prime space in core retail areas on Hong Kong Island supported this upward trend in both retail rental rates and prices. Apple opened its first store in Hong Kong in IFC Mall, while Abercrombie & Fitch opened their flagship store in Pedder Building. In Causeway Bay, Forever 21 leased six floors of Capitol Centre for six years with an option to renew for three years as their flagship store, while other international fashion retailers leased space in the newly opened Hysan Place.

The tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rental rates, with the latter growing by 12.5% in 2012. The first four months of 2013 saw a further 2.1% growth in private retail rents.

From 2003 to 2012, private retail prices rose by more than 395% and yield compression became an obstacle for most investors looking for investment properties. Following a rise of another 3.3% in the first two months of 2013, private retail prices declined by 0.6% in March before stabilising in April in the face of a slowing leasing market and more government restrictive measures.

The low interest-rate environment, the low cost of capital and tight stock availability have pushed retail prices up further in the retail sales market, with prices of private retail premises in Hong Kong recording a growth of 28.3% in 2012, despite low investment returns and a slowing leasing market.

Retail nodes in Hong Kong can be subdivided into core and non-core retail areas. The four core retail areas in Hong Kong are Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, while all other areas are regarded as non-core retail areas. Major characteristics of non-core retail centres are that they often come in the form of large retail podiums in new residential developments, with a strong and often captive primary catchment, offering mainly daily necessities and basic comparison goods with a strong F&B presence. The ratio of non-core retail completions to total retail completions increased from 33% for the period 1981 to 2000, to 52% for the period 2001 to 2012, revealing that over half of the centres completed over the past decade have been non-core centres.

There are no officially available rental trackers or indices for the overall non-core retail market. We have adopted New Territories private retail rents from the Rating and Valuation Department as a proxy for their performances. Non-core retail market rents have proved to be relatively stable compared with core area shopping centre rental movements, especially during market downturns. Taking the Asian financial crisis period (from 1997 to 1999) as an example, while non-core retail market rents fell by 17.0% over the period, much a heavier fall of 47.8% was recorded for core shopping centre rents over the same period³. During the most recent downturn from 2008 to 2009, non-core retail market rents declined by 4.1%, again more moderate than the 5.6% drop of core shopping centre rents.

Besides a more resilient rental performance during market downturns, non-core shopping centres are also proving increasingly popular among international retailers. In light of the fierce competition among international brands for prime spaces in core areas or traditional shopping districts, namely Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially those seeing increasing mainland footfall. For instance, H&M, ZARA and Uniqlo all opened new stores in New Town Plaza in Sha Tin, East Point City/Metro City Plaza in Tseung Kwan O and TMT Plaza in Tuen Mun, while luxury watch brand ROLEX opened new stores in New Town Plaza and TMT Plaza.

The decrease in retail sales growth seen recently may be a short-term phenomenon due to uncertainties affecting the local and mainland Chinese economies, rather than a structural shift in the local retail landscape.

We anticipate local retail spending to continue to support the retail market, both in terms of necessities and leisure shopping, given an historically low unemployment rate, income growth and gradually rebounding consumer confidence. Although luxury shopping items favoured by mainland Chinese tourists rebounded over the first few months of the year, local retail spending still provided strong support.

³ Core area shopping centre rental movements according to the Savills core area shopping centre rental index.

The performance of the retail sector is no longer confined to core areas but has spread to non-core locations, and is well supported by both local consumption and visitor spending, both of which look set to remain healthy in the near future. The recent global economic uncertainties (to which China has not been immune), have slowed the leasing market. However, the latest phase of QE in China should help to counter any weakness in aggregate demand which may result from the global economic slowdown.

Summary of private retail rental forecast, 2013E-2017E

<u>Year</u>	<u>Overall rental growth (%)</u>	<u>Non-core retail rental growth (%)</u>
2013	+5 to 10	+10 to 15
2014	+10 to 15	+10 to 15
2015	+5 to 10	+10 to 15
2016	+5	+5 to 10
2017	+5	+5 to 10

Source: Savills Research & Consultancy

The following is the reproduction of the text of a letter received from Savills (Hong Kong) Limited, the Market Consultant, for the purpose of incorporation in this circular.



Savills (Hong Kong) Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2842 4400
F : (852) 2537 3671

EA Licence: C-023750
savills.com

28 August 2013

ARA Asset Management (Fortune) Limited
(as manager of Fortune Real Estate Investment Trust)
6 Temasek Boulevard
#16-02 Suntec Tower Four
Singapore 038986

HSBC Institutional Trust Services (Singapore) Limited
(as trustee of Fortune Real Estate Investment Trust)
21 Collyer Quay
#10-02, HSBC Building
Singapore 049320

Dear Sir,

As requested we have prepared an independent Retail Market Overview for ARA Asset Management (Fortune) Limited, in its capacity as manager of Fortune Real Estate Investment Trust. The report includes an overview of the retail sector in Hong Kong and an assessment of Kingswood Ginza Property in Tin Shui Wai to be included in Fortune Real Estate Investment Trust in the form of a Catchment Analysis.

Table of Content

- 1.0 HONG KONG ECONOMIC OVERVIEW**
- 1.1 Economic overview**
- 1.2 Key economic and tourism indicators**
- 2.0 HONG KONG RETAIL MARKET OVERVIEW**
- 2.1 Retail sales performance**
- 2.2 Stock and supply**
- 2.3 Retail rents and prices**
- 2.4 Non-core retail market**
- 2.5 Retail market outlook**
- 3.0 CATCHMENT AND INDIVIDUAL ASSET ANALYSIS**
- 3.1 Location**
- 3.2 District analysis**
- 3.3 Catchment area analysis**
- 3.4 Competition analysis**
- 3.5 SWOT analysis**
- 3.6 Outlook**

1.0 HONG KONG ECONOMIC OVERVIEW

1.1 Economic overview

Hong Kong is one of the world's most open and dynamic free-market economies, and it benefits from its strategic location on the doorstep of mainland China and in a time zone between Europe and North America. The city is a centre for international finance, trade, business and communications. At the end of September 2012, the Hong Kong Stock Exchange was ranked sixth among the world's major stock markets in terms of market capitalisation and the second largest in Asia after Japan. Moreover, Hong Kong raised more capital via initial public offerings ("IPOs") in the three consecutive years from 2009 to 2011¹ than any other global stock market. In terms of merchandise trade, Hong Kong was the ninth largest trading entity in the world in 2012².

Compared with other countries in the world, Hong Kong is highly ranked in terms of economic strength and competitiveness. In 2012, Hong Kong's Gross Domestic Product ("GDP") per capita stood at \$51,494³ (current international dollars, adjusted for purchasing power parity ("PPP")), ranking it ahead of the US, the UK and Japan. In the World Competitiveness Scoreboard 2013 compiled by the Swiss-based International Institute for Management and Development, Hong Kong was ranked the third most competitive economy, after the US (first) and Switzerland (second), with Singapore and the UK ranking fifth and 18th respectively. Hong Kong also came first in the Financial Development Index in 2012, ranking it ahead of the US (second), the UK (third) and Singapore (fourth). The strength of Hong Kong as a global financial centre is further evident in the Global Financial Centres Index 2013, where it ranked third just behind London (first) and New York (second) but ahead of Singapore (fourth).

1.2 Key economic and tourism indicators

1.2.1 Key economic and demographic indicators

The local economy recovered swiftly after the containment of Severe Acute Respiratory Syndrome ("SARS") in 2003, and from 2004 to 2008 real GDP grew at an average rate of 6.3% per annum. Nevertheless, the outbreak of the global financial crisis at the end of 2008 impacted the global as well as local economy adversely, and real GDP recorded a 2.5% decline in 2009. As a result of quantitative easing ("QE") measures introduced by many global economies, particularly mainland China, the economy rebounded thereafter, with GDP registering a 6.8% growth in 2010, followed by a 4.9% growth in 2011. However, due to the European sovereign debt crisis and a slower pace of economic growth in the US, the export market has weakened and GDP growth softened to 1.4% in 2012. Real GDP growth averaged 2.7% per annum from 2009 to 2012 as a result. The resilience of domestic consumption, which saw private consumption expenditure increase by 7.0% in real terms in Q1/2013 and a slight improvement in the external trade market with total merchandise trade (imports plus exports) growing by 4.4% year-on-year over the first three months of 2013, the local economy grew moderately by 2.8% in the first quarter of 2013.

¹ Source: World Federation of Exchange.

² Source: World Trade Organization.

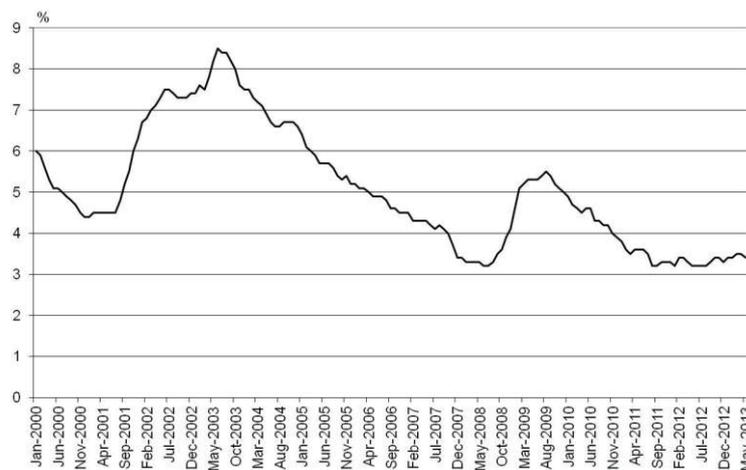
³ GDP based on PPP per capita GDP (current international dollar). Source: World Economic Outlook Database, April 2013, International Monetary Fund ("IMF").

The service industry contributed 93.1% to GDP in 2011⁴, with the financing, insurance, real estate, professional and business services industry ("Finance") accounting for the largest share at 27.3%, followed by the import/export, wholesale and retail trades ("Trading") with 25.9% and public administration, social and personal services ("Administration") with 16.5%.

Due to the growing economy, the composite Consumer Price Index ("CPI"), Hong Kong's main measure of inflation, increased to register 2.4% and 5.3% growth in 2010 and 2011, respectively. Inflationary pressure continued to increase during 2012, with the composite CPI climbing by 4.1% over the period, mainly resulting from external (imported inflation due to escalating global food and commodity prices) and internal (the feed-through effect of higher residential rents and the one-off effect of the statutory minimum wage) factors. Average inflation was reported at 3.8% in the first five months of 2013 due to a mild increase in housing rent and import inflation remaining relatively stable.

The seasonally-adjusted unemployment rate increased from a ten-year low of 3.2% for the three months ending in July 2008, to 5.5% for the three months ending in August 2009, reflecting the deterioration of the employment situation as the global economy declined. The employment situation has since improved with the economic recovery, and the unemployment rate gradually fell from 5.5% in the three months ending in August 2009, to 3.4% for the three months ending in May 2013, a level signifying high employment and local demand for labour.

Hong Kong unemployment rate, Jan 2000-May 2013



Source: Census and Statistics Department, Savills Research & Consultancy

There were a total of 7.07 million residents in Hong Kong in mid-2011⁵. The working population numbered approximately 3.55 million⁶, representing approximately 50% of the total population. Recently, population growth has risen slightly, with an

⁴ Based on "Table 036: Gross Domestic Product ("GDP") by Economic Activity — Percentage Contribution to GDP at Basic Prices". Source: Census and Statistics Department.

⁵ Based on "Population and Average Annual Growth Rate, 1981-2011 (A102)". Source: 2011 Population Census, Census and Statistics Department.

⁶ Based on "Working Population by Occupation, 2001, 2006 and 2011 (C104)". Source: 2011 Population Census, Census and Statistics Department.

average annual growth rate of 0.6% recorded over the five-year period from 2006 to 2011, compared with 0.4% and 0.9% from 2001 to 2006 and from 1996 to 2001, respectively.

Over the past two decades, population growth has been concentrated in the New Territories. While the overall population grew by 24.6% from 1991 to 2011, the New Territories population grew by 55.4% over the same period. Of the 1.4 million newly added population over the past two decades, 1.3 million, or 94%, of the increased population were located in the New Territories.

There are approximately 3.7 million people and 1.2 million households⁷ in the New Territories, followed by 2.1 million people and 0.7 million households in Kowloon, and 1.3 million people and 0.4 million households on Hong Kong Island. The average household size⁸ on Hong Kong Island and in Kowloon stood at 2.9 people and 2.8 people respectively, while a household size of 3 people was recorded for the New Territories.

Private median monthly household income is the primary measure of the incomes of the Hong Kong population living in private housing estates. The previous peak in this measure was recorded in Q1/2008, with the median income reaching HK\$25,500 per month, declining to HK\$24,000 per month in Q2/2009 due to the subsequent global crisis. The economic recovery, which led to record low unemployment rates, pushed up private median household incomes, which rose to HK\$30,000 per month in Q1/2013, a new high since 1994. These higher income levels are giving rise to more domestic retail spending.

According to the 2012 Population and Household Statistics Analysed by District Council District, Wan Chai has the highest median monthly household income at HK\$33,000 per month, followed by Central and Western (HK\$32,000) and Sai Kung (HK\$26,000).

Wage levels in Hong Kong have grown at a slightly faster pace than price inflation, suggesting increased purchasing power. Following three years of negative growth from 2002 to 2004, wage growth returned to positive territory in 2005 on the back of broader economic growth. This continued until the global financial crisis hit in 2008 when wage growth reverted to negative territory, registering a fall of -2.1%. QE helped the local economy recover and benefited a wide range of employees, with the average wage rate of all selected major sectors stabilising in 2009 before rebounding by 3.1%, 9.1% and 5.9% in nominal terms in 2010, 2011 and 2012, respectively.

1.2.2 Key drivers of the Hong Kong economy

Closer integration with mainland China

Hong Kong has developed close links with mainland China since the introduction of the mainland's open-door policy in 1978 and this will remain a key factor in the future success of the territory. In keeping with this trend, the Hong Kong Government and the Central People's government reached an agreement on 18 October 2005 to further liberalise measures governing Hong Kong's trade with the mainland under the Closer Economic Partnership Arrangement ("CEPA").

⁷ Based on "Population by District Council District, 2001, 2006 and 2011 (A201)". Source: 2011 Population Census, Census and Statistics Department.

⁸ Based on "Number of Domestic Households and Average Domestic Household Size by District Council District, 2001, 2006 and 2011 (D201)". Source: 2011 Population Census, Census and Statistics Department.

Introduced as a liberalisation measure under CEPA, the Individual Visit Scheme ("IVS") allows residents of selected mainland cities to visit Hong Kong in their own capacity. Over the past few years, the coverage of the IVS has been expanded and is now implemented across 49 mainland cities, including approximately 270 million residents in total. In 2012, mainland Chinese residents made more than 23.1 million trips to Hong Kong under the IVS, an increase of 3.2 times since 2005, according to the Hong Kong Tourism Board ("HKTB"). These visitors accounted for 66.3% of all mainland visitors or 47.6% of total visitors.

One of the leading global sources for a wide range of light-manufactured goods, the Pearl River Delta ("PRD")⁹ region has now become one of the principal locations for the manufacture and assembly of high-tech electronic products. The continued development of this region will benefit Hong Kong given that it will require the investment, management, market knowledge, technology and international connections available through Hong Kong.

Favourable financial sector policies

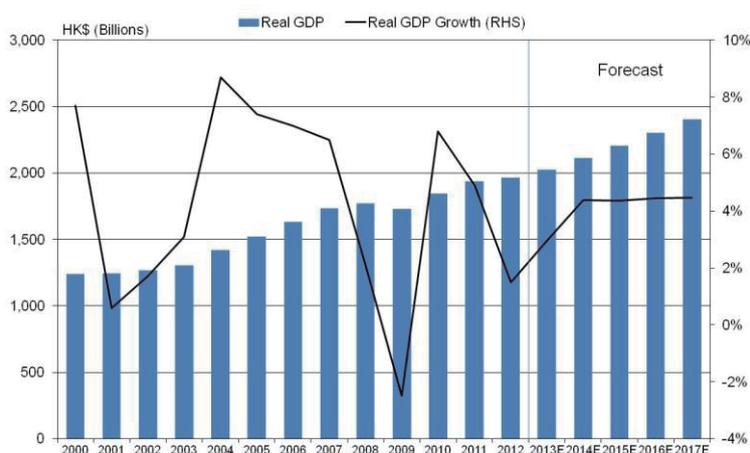
The closer integration of Hong Kong and China was also reflective in a number of favourable financial sector policies, namely Qualified Domestic Institutional Investors (QDII) scheme, Qualified Foreign Institutional Investors (QFII) scheme as well as RMB Qualified Foreign Institutional Investors (RQFII) scheme, which allow both mainland qualified institutions to invest in certain financial products in Hong Kong (and other foreign countries), and qualified foreign institutions to invest in a range of financial assets in mainland China, which has boosted capital flow between the two areas, as well as strengthening the role of Hong Kong as the offshore renminbi business centre.

⁹ Refers to the PRD Economic Zone comprising Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai. Also referred to as the 'Greater PRD' if Hong Kong and Macau are included.

1.2.2 Economic forecasts

The government's latest Quarterly Business Tendency Survey suggests that overall business sentiment among large enterprises in Hong Kong is more positive compared with the first quarter. Moreover, domestic consumption is expected to remain resilient, underpinned by largely favourable labour market conditions. The ongoing infrastructure works, thriving inbound tourism, and positive effects of the package of measures in the 2013-14 Budget should also render growth impetus to the local economy. As a result, long-term real GDP growth is forecast to remain moderately positive, averaging approximately 4.1% per annum from 2013 to 2017¹⁰. Under such favourable economic conditions, private consumption is expected to grow by 4.4% per annum over the same period¹¹.

Hong Kong real GDP and growth rate, 2000-2017E



Source: Census and Statistics Department, Savills Research & Consultancy

On the inflation outlook, with the lagged effects of the surge in private housing rentals over the past year progressively feeding through, inflation is likely to rise back slightly in the coming months. Imported inflation should remain tame, however, and local housing rentals have softened more recently following the Government's two rounds of demand management measures. These favourable developments should help to contain the upward pressure on inflation in the latter part of this year and onward. Inflation is therefore projected to average 3.5% per annum over the five-year period from 2013 to 2017¹².

1.2.3 Tourism market

Since 2001, a series of measures have been introduced to relax restrictions on mainland Chinese travelling to Hong Kong (application procedures as well as currency controls), which have helped to boost tourist-related retail demand. Introduced in July 2003, the IVS allows travellers from selected mainland cities to visit Hong Kong independently rather than coming in tour groups only, and has now been extended to 49 cities in China, covering approximately 270 million people.

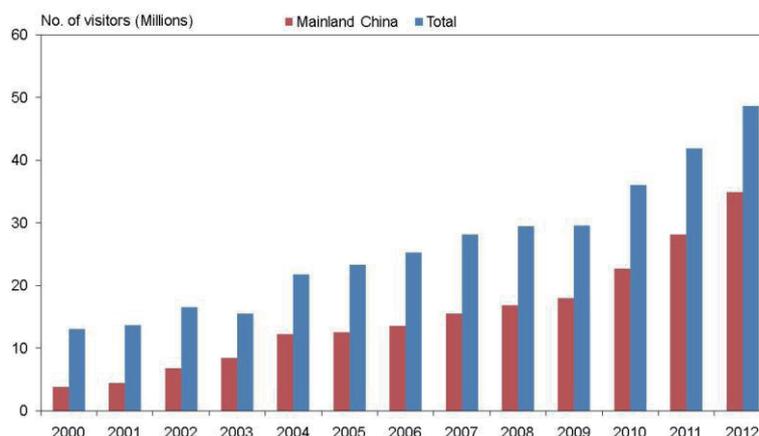
¹⁰ Source: World Economic Outlook Database, April 2013, IMF.

¹¹ Source: FocusEconomics Consensus Forecast, August 2013

¹² Source: World Economic Outlook Database, April 2013, IMF.

As a result of increased mainland Chinese visitor arrivals, total visitor arrivals increased by 213% from 2003 to 2012 and stood at 48.6 million at the end of 2012. Over the same period, visitor arrivals from mainland China increased from 8.5 million to 34.9 million, a 312% rise since the implementation of the IVS. This growth has made mainland China the single largest source of tourists to Hong Kong and their number represented approximately 71.8% of 2012's total.

Overall visitor arrivals vs mainland Chinese visitor arrivals, 2000-2012



Source: HKTB, Savills Research & Consultancy

From January to May 2013, visitor arrivals continued to grow, with 21.2 million visitors arriving in Hong Kong, representing a 13.2% year-on-year growth rate over the same period. As expected, mainland Chinese arrivals were the largest in number, with 15.6 million or 74% of visitors, and their 19.8% year-on-year growth rate is almost the only above-average growth among major markets of origin.

According to data from the HKTB, approximately 60.4% of all overnight visitors were in Hong Kong for vacation in 2012. Reflecting the rising numbers of mainland Chinese visitors, 22.5% of overnight visitors were visiting friends and relatives, while overnight business travellers recorded a 34.5% increase from 2001 to 2012, reflecting Hong Kong's role as a global centre for finance, trade and communications. From 2001 to 2012, growth in the number of mainland Chinese overnight business travellers has risen by 140.3%, and in 2012, represented 45.2% of the total.

From 2001 to 2012, the average length of stay has increased from 3.1 nights to 3.5 nights. Mainland Chinese overnight visitors stayed for 3.7 nights in 2012, longer than short-haul visitors (2.8 nights in 2012)¹³, reflecting the changing nature of these visitors in extending their Hong Kong experience beyond simply shopping.

Average length of stay, overall and mainland Chinese visitors, 2008-2012

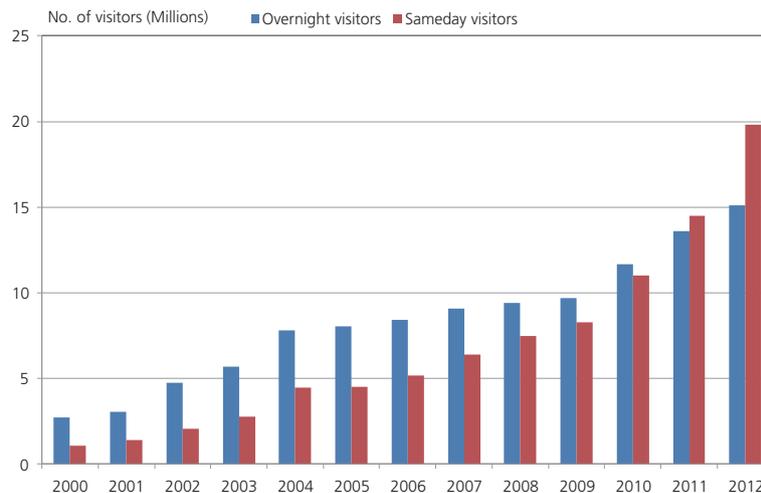
	2008	2009	2010	2011	2012
Overall	3.3	3.2	3.6	3.6	3.5
Mainland	3.5	3.4	3.9	3.9	3.7

Source: HKTB, Savills Research & Consultancy

¹³ Long-haul includes the Americas, Europe, Africa, the Middle East, Australia, New Zealand and the South Pacific. Short-haul includes North Asia, South and Southeast Asia, Taiwan and Macau. Source: HKTB.

Another notable trend is the rising proportion of same-day-in-town mainland Chinese visitors, with the number of same-day mainland Chinese visitors surpassing their overnight counterparts in the first five months of 2013, standing at 7.4 million (58% of total mainland Chinese visitor arrivals). Previously, approximately 60% to 70% of mainland Chinese visitors stayed overnight in Hong Kong. This trend is the result of the increasing number of IVS travellers from southern China, and shows that there exists a mature group of repeat visitors, who have already explored new retail venues such as Sha Tin, Sheung Shui and Tsuen Wan. These day trippers tend to visit suburban retail centres located close to the border in the northern or north-western New Territories and shop for daily necessities and pharmaceutical products.

Mainland Chinese visitor arrivals, overnight vs same-day, 2000-2012

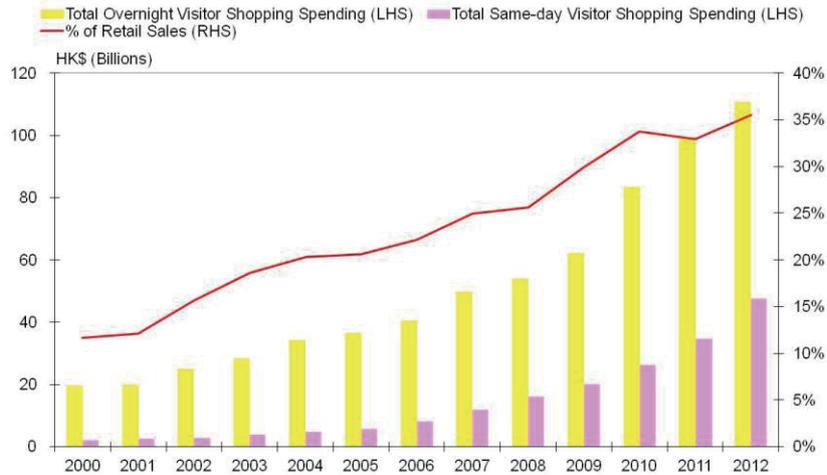


Source: HKTB, Savills Research & Consultancy

In terms of spending, in 2012 same-day-in town mainland Chinese spent HK\$2,489 per capita, while the per capita spending of their overnight counterparts stood at HK\$8,565. Nevertheless on a per diem basis, overnight mainland Chinese visitors only spent HK\$2,339 per capita, lower than day trippers, showing the pure 'shopping' nature of same day visitors.

Overnight visitor spending has played an increasingly significant role in supporting the retail market in the past few years. Total visitor expenditure on "shopping items" represented approximately 11.6% of total retail sales value in 2000, and by 2012 this percentage had increased to approximately 35.5%, the remainder of retail sales (64.5%) being generated by local demand.

Total overnight visitor shopping spending as a percentage of total retail sales, 2000-2012



Source: HKTB, Census and Statistics Department

2.0 HONG KONG RETAIL MARKET OVERVIEW

2.1 Retail sales performance

2.1.1 Total retail and restaurant sales

Due to the steadily rising local economy, improving job security and increasing disposable incomes, which has encouraged local spending, as well as the growing numbers of mainland Chinese visitors who spend heavily on shopping, retail sales have grown strongly over the past few years. The global financial crisis reduced spending near the end of 2008 and the beginning of 2009, leading to a slight decrease in retail sales, which then registered growth of 10.6%, 0.6% and 18.3% in 2008, 2009 and 2010, respectively. Although the euro debt crisis and global economic uncertainties affected the local economy from mid-2011 onwards, the retail sector, supported by both local and tourist spending, was relatively unscathed and witnessed 24.8% growth in 2011.

More uncertainty in both the global and Chinese economies was witnessed in 2012 and the local retail market responded to these adverse conditions with a moderate growth rate of 9.8% year-on-year in retail sales. A significant factor behind the slowing growth was the luxury products sector, typically favoured by mainland Chinese tourists, and as their spending moderated due to uncertain economic conditions in mainland China, sales of jewellery, watches and clocks, and valuable gifts also slowed to 7.6% year-on-year. Nevertheless, this slack had been partially taken up by local spending on both mid-priced items and daily necessities, with consumer durable goods and supermarket sales recording a 19.4% and 10.3% growth over the same period.

Retail sales growth from January to April 2013 rebounded to 15.5% year-on-year, mainly due to reviving luxury spending by mainland tourists and local spending on consumer goods.

Retail sales value and year-on-year growth, Q1/2007-Q1/2013



Source: Census and Statistics Department, Savills Research & Consultancy

According to Census and Statistics Department, restaurant receipts recorded growth of 13.1%, 0.6% and 5.1% in 2008, 2009 and 2010, respectively, following a similar pattern to retail sales. A key driver of the food and beverage (“F&B”) sector is local demand, with rising incomes and favourable employment conditions contributing to greater spending on F&B in 2011, when a 6.4% increase was recorded over the period.

Restaurant receipts slowed to a 5.0% growth in 2012 when the F&B sector was affected by the local economic slowdown. Among the different types of restaurants, only fast-food shops recorded a higher rate of growth than the same period in 2011, registering growth of 7.6% in 2012. The first quarter of 2013 saw the lowest growth since Q4/2009, with restaurant receipts growing by 3.5% year-on-year.

Income levels as well as broader consumer confidence drive retail sales per capita. From the 1997 peak to 2003, total sales per capita declined by 27% and rebounded by 52.4% from 2004 to 2008, standing at HK\$39,220 per person in 2008. The global financial crisis stalled rather than reduced this figure, with sales per capita remaining static in 2009. Retail sales per capita rose by 45.2% from 2009 to 2011 to stand at HK\$57,046 per person as a result of the increase in retail sentiment and mainland Chinese spending. In 2012, the figure grew by 8.8% to HK\$62,082.

2.1.2 Retail sales by trade category

In the first four months of 2013, retail sales of jewellery, watches and clocks and valuable gifts regained some growth momentum after a subdued performance in 2012, registering a 29.8% year-on-year growth over the period, followed by consumer and durable goods (+22.1%) and department stores (+16.8%). The sustained strong sales performance of mid-priced items and daily necessities shows that local spending on these areas has been largely unaffected by an uncertain external environment.

Percentage change in retail sales by category, Jan-Apr 2012 vs Jan-Apr 2013

<u>Trade category</u>	<u>% change</u>
Food, alcoholic drinks and tobacco	+2.6
Supermarket spending	+7.5
Fuel	+0.8
Clothing, footwear and allied products.....	+9.2
Consumer durable goods	+22.1
— Motor vehicles and parts	+18.0
— Electrical goods and photographic equipment	+2.6
— Furniture and fixtures.....	+1.9
— Other consumer durable goods, not elsewhere classified.....	+112.3
Department stores.....	+16.8
Jewellery, watches and clocks, and valuable gifts.....	+29.8
Other consumer goods	+8.5

Source: Census and Statistics Department, Savills Research & Consultancy

2.2 Stock and supply

Total stock of private commercial premises¹⁴ in Hong Kong doubled between 1980 and 2012, to 116.9 million sq. ft. at the end of 2012¹⁵. In 2012, around 41% of private commercial stock was located in Kowloon, while Hong Kong Island and the New Territories accounted for around 30% and 29% of the remaining commercial stock, respectively.

Along with the increase in the total stock of private commercial premises and rising income levels, per capita stock¹⁶ has risen by 6.5 sq. ft. per person since 1981, standing at 16.3 sq. ft. per person at the end of 2012.

Private commercial supply averaged approximately 1.9 million sq. ft. per annum from 1980 to 2012. However, supply levels were lower in the 2000s when compared with the previous two decades. In 2006, shopping centre supply reached a recent peak when approximately 2.0 million sq. ft. was completed, including some larger scale malls such as Elements in Tsim Sha Tsui and MegaBox located in Kowloon Bay.

¹⁴ 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.

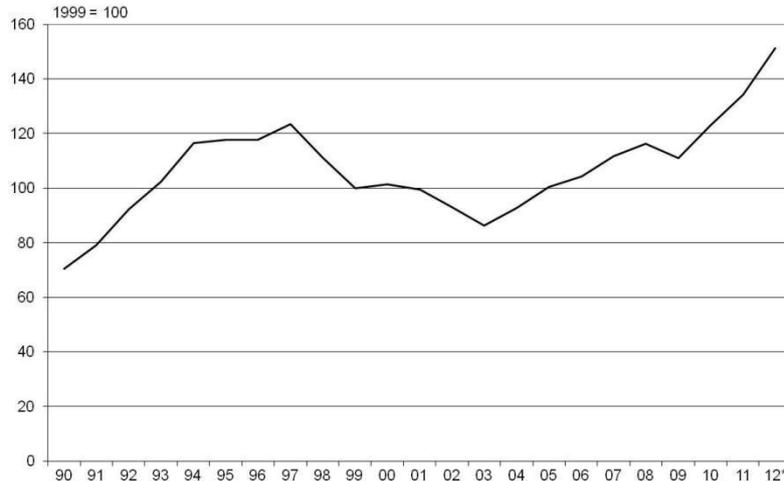
¹⁵ According to the Rating and Valuation Department, from 2006 onwards private commercial stock figures include properties owned by The Link REIT, which had a total IFA of 10.3 million sq. ft. in 2006.

¹⁶ Total year-end private commercial stock divided by total year-end population.

2.3 Retail rents and prices

2.3.1 Rental trends

Private retail rental index, 1990-2012



Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional

From 2003 to 2011 private retail rents increased by approximately 55% on the back of the implementation of the IVS along with the rebound in the local economy.

International retailers leasing prime space in core retail areas on Hong Kong Island supported this upward trend in both retail rental rates and prices. Apple opened its first store in Hong Kong in ifc Mall, while Abercrombie & Fitch opened their flagship store in Pedder Building. In Causeway Bay, Forever 21 leased six floors of Capitol Centre for six years with an option to renew for three years as their flagship store, while other international fashion retailers leased space in the newly opened Hysan Place.

The tourist market and improving local consumer sentiment continued to support the growth of retail sales and retail rental rates, with the latter growing by 12.5% in 2012. The first four months of 2013 saw a further 2.1% growth in private retail rents.

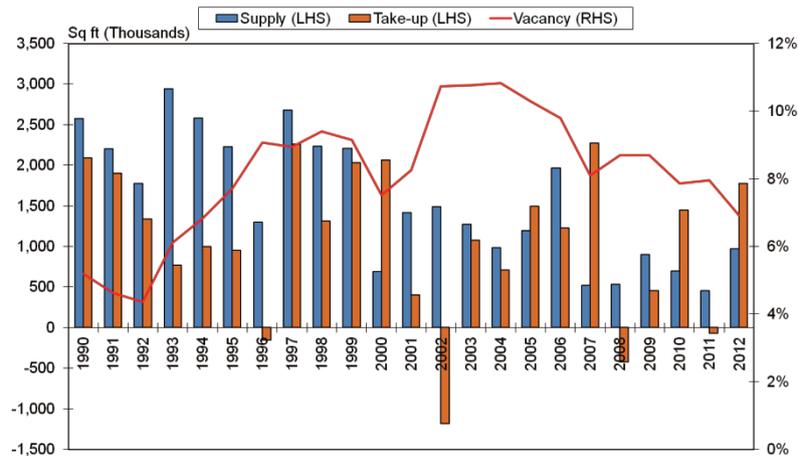
2.3.2 Take-up and vacancy

Average take-up stood at approximately 2.3 million sq. ft., 1.4 million sq. ft. and 0.9 million sq. ft. between 1980 and 1989, 1990 and 1999 and 2000 and 2012, respectively. The decline in take-up is attributable to falling supply levels, as well as the maturing market. Take-up rebounded from 0.8 million sq. ft. to 2.3 million sq. ft. from 2004 to 2007.

Negative take-up of retail space was witnessed in 2008, and a number of chain retailers closed in Hong Kong, including Tai Lam and U-Right, both of which closed near the end of that year, due to the demand contraction following the global financial crisis. As a result, vacancy rates increased to 8.7% in 2008. With the subsequent influx of mainland Chinese visitors and the recovering economy favouring the retail market, take-up of retail space rebounded to 450,000 sq. ft. and 1.5 million sq. ft. in 2009 and 2010, respectively. Take-up then declined to close to zero and

vacancy rates hovered at approximately 8.0% in 2011, given the recent global economic uncertainties and record-high rental rates slowing leasing activity. On the back of the entry of numerous international retailers, such as Apple, Abercrombie & Fitch, GAP and Forever 21, private commercial take-up rebounded to 1.8 million sq. ft. in 2012.

Private commercial supply, take-up and vacancy rate, 1990-2012



Source: Rating and Valuation Department, Savills Research & Consultancy

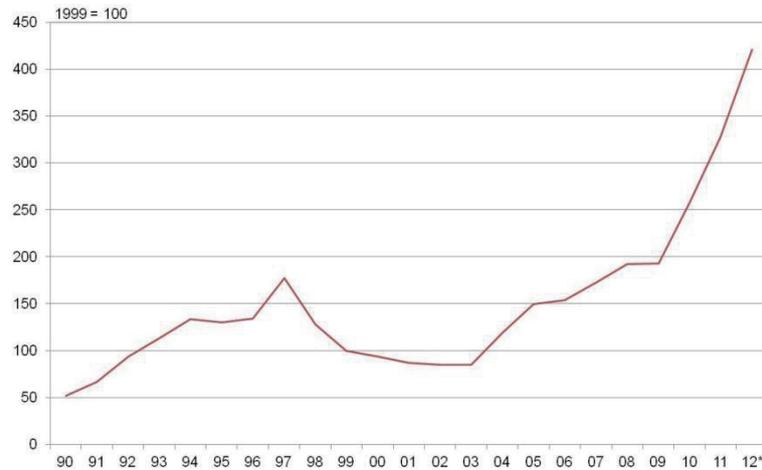
The highest level of average take-up at 381,000 sq. ft. per annum from 2000 to 2012 was recorded in Kowloon, mainly due to a number of major centres being completed here over the past decade, such as MegaBox, K11, i-Square and The ONE. This is followed by the New Territories (362,000 sq. ft. per annum) and Hong Kong Island (123,000 sq. ft. per annum).

The performance of the shopping malls in Central, Admiralty and Causeway Bay suggest that the north side of Hong Kong Island is a major retail area. However, Wan Chai, located between Central/Admiralty and Causeway Bay, has no large shopping malls which can be regarded as either territorial or regional malls. We believe the opening of the retail portion of 200 Queen's Road East Project will help the potential growth in retail activity in Wan Chai.

As mainland Chinese traffic spills over into areas along the East Rail, international retailers are expanding towards non-core retail districts. For example, Zara has opened shops in Metro City Plaza in Tseung Kwan O, TMT Plaza in Tuen Mun and New Town Plaza in Sha Tin, while Bershka opened shops in Olympic City in Tai Kok Tsui and Metro City Plaza in Tseung Kwan O. The trend is driving up retail demand and thus retail rental rates in these regions.

2.3.3 Price trends

Private retail price index, 1990-2012



Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional

From 2003 to 2012, private retail prices rose by more than 395% and yield compression became an obstacle for most investors looking for investment properties. Following a rise of another 3.3% in the first two months of 2013, private retail prices declined by 0.6% in March before stabilising in April in the face of a slowing leasing market and more government restrictive measures.

The low interest-rate environment, the low cost of capital and tight stock availability have pushed retail prices up further in the retail sales market, with prices of private retail premises in Hong Kong recording a growth of 28.3% in 2012, despite low investment returns and a slowing leasing market.

2.3.4 Shopping centre transactions

Major shopping centre transactions, 2012

Transaction date	District	Property	Unit	Consideration (HK\$)	Gross area (sq ft)	Gross unit price (HK\$ per sq ft)	Vendor	Purchaser
Dec 2012	Kowloon Tong	Festival Walk	Whole block	20,700,000,000	1,208,754	17,125	Mapletree	Mapletree Greater China Commercial Trust
Dec 2012	Tai Kok Tsui	West 9 Zone, 38 Cherry Street	accommodation-2/F and 17 car parking spaces	630,000,000	61,347	10,269	Blessed Group Ltd	Victory Wave Ltd
Nov 2012	Tsuen Wan	Riviera Plaza	Shopping centre portion	508,000,000	242,689	2,093	New World	Wang On
Nov 2012	Tsuen Wan	Allway Gardens	Portion on L/F, G/F & 2/F of Phase 1, G/F & CL of Phase 2, Commercial Development	350,000,000	188,048	1,861	Max Rainbow Enterprise Ltd	Ho Chi Yung
Aug 2012	Kwun Tong	Laguna City	Shops on G/F-2/F, roofs + 150 car parking spaces	1,500,000,000	163,205	9,191	Hang Lung Properties	CLSA Capital Partners
Jul 2012	Tsuen Wan	Indi Home	Commercial accommodation + 49 car parking spaces	360,080,000	54,077	6,659	Healthy Sun Ltd	Antron Investment Ltd
May 2012	Tsuen Wan	Emperor Plaza	B1-B2/F, 1-3/F	606,800,000	61,592	9,854	Pleasure View Investment Ltd	Total Earn Limited

Source: EPRC, company announcements, Savills Research & Consultancy

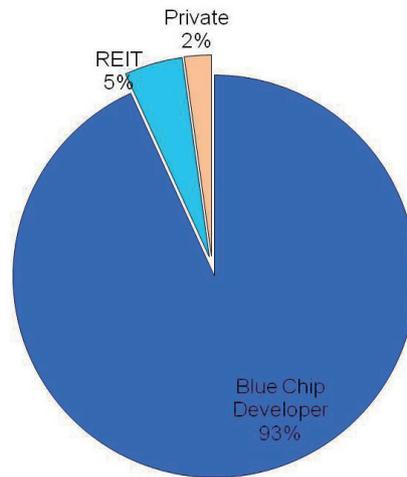
Shopping centre¹⁷ transactions in Hong Kong have been limited over the past five years as many shopping centres in prime locations, regardless of whether they are in core or non-core retail areas, are tightly held by their developers and only a handful are generally available for sale.

The largest transaction recorded in terms of consideration from 2008 to 2013 was Festival Walk in Kowloon Tong, in an IPO listing in Singapore, in which Mapletree injected the entire property (shopping centre and offices) into its Mapletree Greater China Commercial Trust for a consideration of HK\$20.7 billion, or HK\$17,125 per sq ft of gross area, on 31 December 2012. Another major retail transaction, by CLSA Capital Partners, was the acquisition of the shopping centre and car parking spaces at Laguna City for HK\$1.5 billion in August 2012.

¹⁷ Excluding multi-floor retail units which are often occupied by one or more retailers with no shopping centre branding and no specific trade/tenant mix.

According to the information sourced from company announcements and EPRC, from 2008 to 2013 only one shopping centre of around or over 500,000 sq ft has been transacted.

Shopping centres with a GFA over 500,000 sq ft, breakdown by floor area¹⁸



Source: Company reports, Savills Research & Consultancy

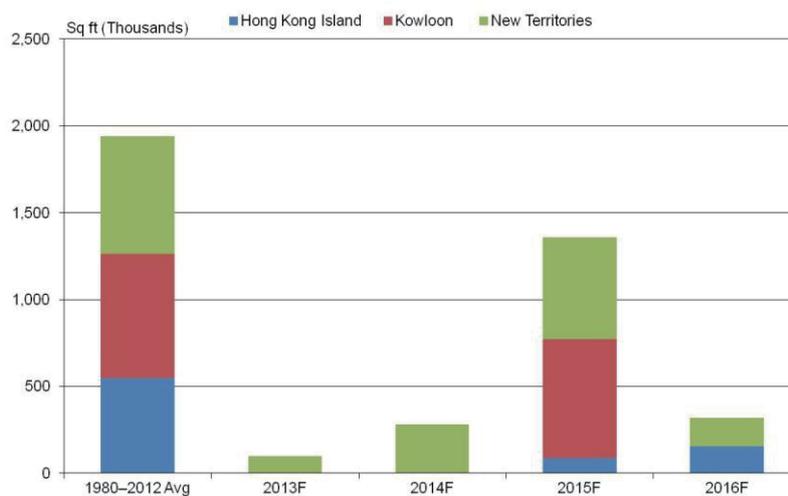
According to various company reports and Savills estimates, 93% and 5% of shopping centres over 500,000 sq ft are held by developers and REITs, respectively, and are not frequently transacted.

¹⁸ While properties held by REITs are clearly shown in their respective annual reports, Savills has only loosely categorised properties held by 'Developers' and 'Private' and thus the percentages shown in this chart can only be regarded as a rough estimate.

2.4 Non-core retail market

Retail nodes in Hong Kong can be subdivided into core and non-core retail areas. The four core retail areas in Hong Kong are Central, Causeway Bay, Tsim Sha Tsui and Mong Kok, while all other areas are regarded as non-core retail areas. Major characteristics of non-core retail centres are that they often come in the form of large retail podiums in new residential developments, with a strong and often captive primary catchment, offering mainly daily necessities and basic comparison goods with a strong F&B presence. The ratio of non-core retail completions to total retail completions increased from 33% for the period 1981 to 2000, to 52% for the period 2001 to 2012, revealing that over half of the centres completed over the past decade have been non-core centres.

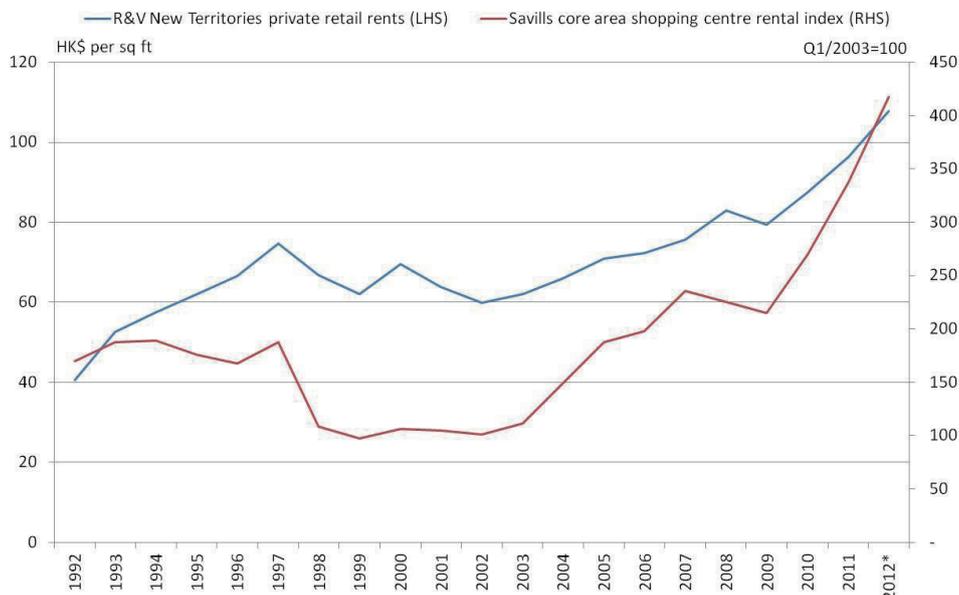
Private commercial supply by district, 1980-2012 average and 2013E-2016E



Source: Rating and Valuation Department, Savills Research & Consultancy

Between 2013 and 2016, major shopping centre supply is expected to fall to an average of 514,546 sq. ft. per annum, with 52% of total future supply located in the New Territories. A few large-scale shopping centres, such as Hysan Place (400,000 sq. ft.) in Causeway Bay and V City (269,000 sq. ft.) in Tuen Mun were completed in 2012, but the new shopping centres forecast for completion by 2013 and 2014 are small in scale, with GFAs of less than 150,000 sq. ft. Kowloon Development's 686,426-sq. ft. Ngau Chi Wan project will be the only major retail development completed in Kowloon in 2015. Another large scale shopping centre in the New Territories would be the retail podium of Yoho Town Phase 3, which will have a total GFA of 471,000 sq ft with an expected completion in 2015. Notably, most of the large-scale shopping centre supply in the New Territories will be the retail podiums of large residential estates.

Private retail rents in the New Territories vs core area shopping centre rental index, 1992-2012



Source: Rating and Valuation Department, Savills Research & Consultancy

* Provisional

There are no officially available rental trackers or indices for the overall non-core retail market. We have adopted New Territories private retail rents from the Rating and Valuation Department as a proxy for their performances. Non-core retail market rents have proved to be relatively stable compared with core area shopping centre rental movements, especially during market downturns. Taking the Asian financial crisis period (from 1997 to 1999) as an example, while non-core retail market rents fell by 17.0% over the period, much a heavier fall of 47.8% was recorded for core shopping centre rents over the same period¹⁹. During the most recent downturn from 2008 to 2009, non-core retail market rents declined by 4.1%, again more moderate than the 5.6% drop of core shopping centre rents.

Besides a more resilient rental performance during market downturns, non-core shopping centres are also proving increasingly popular among international retailers. In light of the fierce competition among international brands for prime spaces in core areas or traditional shopping districts, namely Central, Causeway Bay, Tsim Sha Tsui and Mong Kok,

¹⁹ Core area shopping centre rental movements according to the Savills core area shopping centre rental index.

some international brands as well as luxury retailers are expanding into non-core locations along the railway lines, especially those seeing increasing mainland footfall. For instance, H&M, ZARA and Uniqlo all opened new stores in New Town Plaza in Sha Tin, East Point City/Metro City Plaza in Tseung Kwan O and TMT Plaza in Tuen Mun, while luxury watch brand ROLEX opened new stores in New Town Plaza and TMT Plaza.

2.5 Retail market outlook

- We anticipate local retail spending to continue to support the retail market, both in terms of necessities and leisure shopping, given a historically low unemployment rate, income growth and gradually rebounding consumer confidence.
- While local retail spending is providing strong support to the retail market, luxury shopping items favoured by mainland Chinese tourists rebounded over the first few months of 2013. In 2012, overnight tourist expenditure on shopping continued to increase by 11.9%, reaching HK\$110.7 billion. We believe that mainland Chinese spending on shopping will continue to increase and their appetite for all shopping items will remain in the coming years, with the sustained growth in mainland Chinese visitor arrivals and a gradual relaxation of the macro measures in China.
- Although visitor arrivals grew by 16% over 2012, this was largely due to the 24% growth in mainland Chinese visitor arrivals, with the growth of visitors from most other countries below average over the same period. This increasing reliance on mainland Chinese visitors to drive visitor growth may not be sustainable. Therefore, from 2013 to 2015, we have adopted a more conservative trend growth of 10% per annum in visitor arrivals.
- The performance of the retail sector is no longer confined to core areas but has spread to non-core locations, in particular in the northern and north-western New Territories, and is well supported by both local consumption and visitor spending, both of which look set to remain healthy in the near future.
- As a result, we expect the local retail market to continue to be well supported by both local and tourist spending from 2013 onwards, not necessarily at the rate of 20% to 30% growth per annum as in 2010 and 2011, but rather at a slower but more sustainable rate, closer to the 10% growth recorded in 2012.
- Statistically, total retail sales (retail sales + restaurant receipts) growth has been highly related to growth in visitor arrivals (positive), the rate of unemployment (negative), as well as growth in private consumption (positive) over the past two decades ($R^2 = 81\%$). Extrapolating this historic relationship²⁰, the total retail sales value is expected to increase by 10% per annum from 2013 to 2015.
- Retail rental growth has also shown a relatively high positive correlation with the growth of total retail sales productivity²¹ over the past two decades ($R^2 = 59\%$), indicating that retail rents were affected by both the money generated from, and the provision of, retail space over the period. Retail rents are expected to increase

²⁰ Visitor arrivals are forecast to grow by 10.3% per annum from 2013 to 2017, being the average growth rate from 1985 to 2011. Private consumption growth and unemployment rate forecasts follow those listed in section 1.2.2.

²¹ Total retail sales divided by total retail floor area.

by 5% to 10% in 2013, by 10% to 15% in 2014 and by 5% to 10% in 2015, before reverting to the long-term average growth (from 1986 to 2012) of 5% per annum in 2016 and 2017.

- The non-core retail rental trend has had a relatively high correlation with the overall market over the past two decades ($R^2 = 74\%$) and extrapolating this relationship, we may see a 10% to 15% increase in rents per annum from 2013 to 2015, before rental growth moderates to 5% to 10% per annum from 2016 to 2017.

Summary of private retail rental forecast, 2013E-2017E

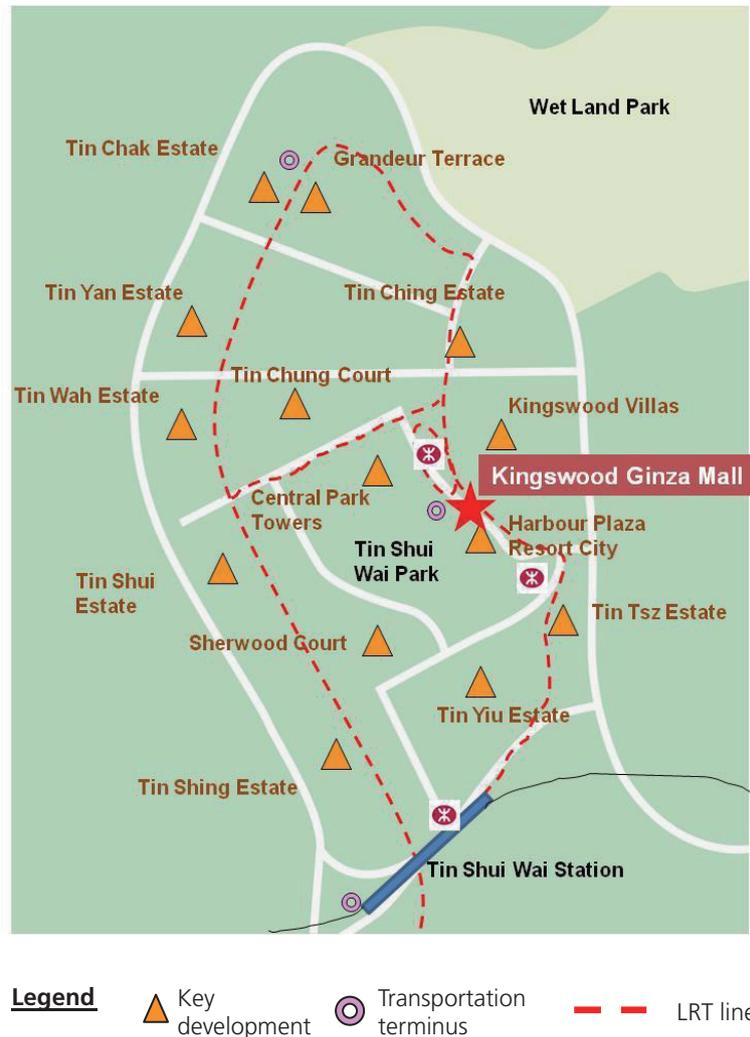
<u>Year</u>	<u>Overall rental growth</u> (%)	<u>Non-core retail rental growth</u> (%)
2013	+5 to 10	+10 to 15
2014	+10 to 15	+10 to 15
2015	+5 to 10	+10 to 15
2016	+5	+5 to 10
2017	+5	+5 to 10

Source: Savills Research & Consultancy

3.0 CATCHMENT AND INDIVIDUAL ASSET ANALYSIS

3.1 Location

Location map



Source: Savills Research & Consultancy

The Kingswood Ginza Property comprises the entire shopping mall commonly known as “Kingswood Ginza” (the “Kingswood Ginza Mall”) as well as other retail, kindergarten, parking lots and ancillary spaces to such areas (including loading bays and external walls), reserved shares and common areas within the Kingswood Development.

Kingswood Ginza Mall is the three-level retail podium of Harbour Plaza Resort City, located at 18 Tin Yan Road, Tin Shui Wai. Kingswood Ginza Mall comprises two different phases, namely Amazing Lane and Cine Valley, which are connected by the open space of Tin Shui Wai Park. Harbour Plaza Resort City comprises two towers and has a total of 1,102 hotel rooms.

The Kingswood Ginza Property has a gross rentable area of around 665,244 sq ft, and a wide selection of stores selling household products, apparel and electrical appliances, plus restaurants, a Jockey Club betting outlet, a Broadway Cinema and a PARKnSHOP

supermarket. The Kingswood Ginza Mall became the new retail centre of the town following its opening in 1999. It is the largest shopping mall in Tin Shui Wai, located in Yuen Long District.

The main entrance of the subject shopping centre is on the G/F, opening onto Tin Yan Road, with additional entrances in Amazing Lane and Cine Valley. The complex is situated next to Tin Wing and Ginza Light Rail Transit (LRT) Station and a public transport interchange, and is within a five-minute walk of both the stations and the interchange. Tin Shui Wai MTR Station is also within a 15-minute walk of Kingswood Ginza Mall.

Surrounding Kingswood Ginza Mall are both public and private residential developments. The private residential developments include Central Park Towers Phases 1 and 2 (2,960 units), Lynwood Court (2,864 units), Maywood Court (2,223 units) and Kenswood Court (3,968 units) at Kingswood Villas, while Tin Yiu Estate (8,500 units), Tin Shui Estate (7,800 units) and Tin Tsz Estate (3,400 units) are the public housing estates situated close to the property.

Several shopping malls are located in the area, many of them public housing estate shopping podiums, including Tin Yiu Plaza, Tin Shing Shopping Centre and Tin Shui Shopping Centre. Kingswood Richly Plaza is a strata-titled shopping mall.

Kingswood Ginza Mall is connected with Harbour Plaza Resort City (1,102 rooms) and Tin Shui Wai Park. The hotel includes both serviced suites and hotel rooms which attract local guests as well as international hotel visitors for short- and long-term stays.

The Wetland Park is a key tourist spot for both local and overseas visitors. The 61-ha Hong Kong Wetland Park demonstrates the diversity of Hong Kong's wetland ecosystem and highlights the need to conserve this area. The Wetland Park plays a key role as an educational and recreation venue, emphasising the function and value of wetlands which is highly appreciated by local residents and overseas visitors. The Wetland Park is only 15 minutes from Kingswood Ginza Mall via the LRT.

3.2 District analysis

3.2.1 District overview

Tin Shui Wai is the largest New Town in Hong Kong and is located in Yuen Long District in the northwest New Territories. Tin Shui Wai is mainly a residential area comprising private, public and home ownership scheme (HOS) housing estates. The private residential development, Kingswood Villas, is the largest in Tin Shui Wai, with a total of 15,880 units in 58 blocks in six different phases, namely Locwood Court, Sherwood Court, Chestwood Court, Lynwood Court, Maywood Court and Kenswood Court. There are also large public housing estates, such as Tin Yiu Estate (8,500 units) and Tin Shui Estate (7,800 units), and a few HOS estates, including Tin Chung Court (6,080 units) and Tin Shing Court (6,580 units).

There is also a small number of commercial facilities, including neighbourhood shopping arcades such as Tin Yiu Plaza, Tin Shui Shopping Centre and Chung Fu Plaza. The two-tower Harbour Plaza Resort City provides 1,102 hotel rooms, of which a small number in Tower 1 are serviced suites providing long stay packages to visitors. Most of the other shopping arcades are local/neighbourhood centres held by either a listed REIT or the Housing Authority.

The area is well served by both roads and the MTR. The LRT system, which has 16 stops in Tin Shui Wai, provides a convenient means of transportation within the area and the greater Yuen Long and Tuen Mun districts, while the West Rail Line, opened in 2003, enables a closer connection between the New Town and Hong Kong's urban areas.

3.2.2 Future development

Tin Shui Wai district overview



Source: Savills Research & Consultancy

There are only three potential property developments in the pipeline: a proposed 2,500-unit residential development located on Kiu Cheong Road by the Housing Authority, which is estimated to complete in 2018; and a 1,000-unit residential development located in Area 115 by the Housing Society, the project is still under long-term planning and do not have confirmed completion dates.

The third development is a hotel project in Area 108A with a total GFA of 279,822 sq ft by Billion Development. The land was sold to Billion Development by government tender and is now waiting for development plan approval.

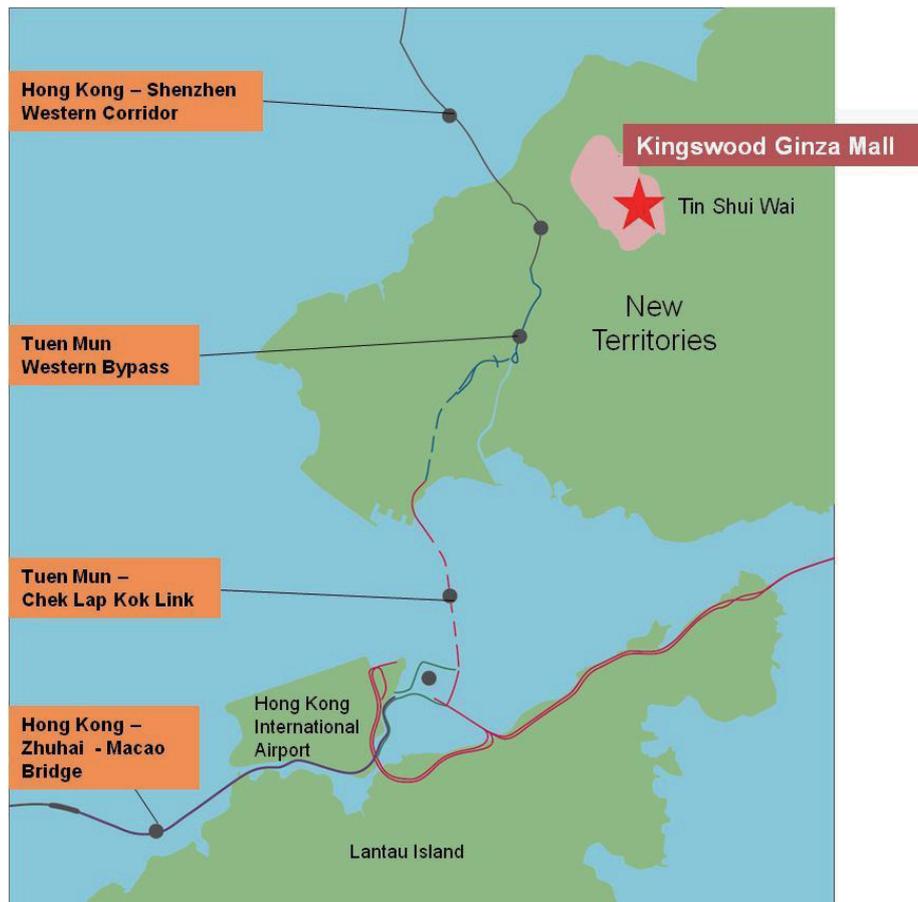
Major developments in Tin Shui Wai

<u>Development/infrastructure</u>	<u>Development information</u>		<u>Expected completion</u>
	<u>Residential</u>	<u>Hotel</u>	
Kiu Cheong Road Housing Development by the Housing Authority	Around 2,500 units		2018
Wetland Park Area, Tin Shui Wai Area 115 by the Housing Society	Around 1,000 units		Under planning
TSWTL 26, Area 108A		279,822 sq ft	Under planning
Transport infrastructure			
Tuen Mun Western Bypass			Under planning
New Development Area or enhancement of area			
Hung Shui Kiu New Development Area . . .			Under planning
Enhancement of Lau Fau Shan Area			Under planning

Source: Buildings Department, Savills Research & Consultancy

The Tuen Mun Western Bypass is a dual two-lane carriageway of around 9 km, including a land tunnel of around 5 km between the Tuen Mun-Chek Lap Kok Link and Tsing Tin Road, and viaducts of about 4 km between Tsing Tin Road and Kong Sham Western Highway. The Tuen Mun District Council and Heung Yee Kuk supported the current recommended alignment option of Tuen Mun Western Bypass in the meetings on 2 and 16 November 2010 respectively. The Environment Protection Department has issued the new Environmental Impact Assessment Study Brief on 28 February 2011. The government is currently proceeding with the traffic impact assessment, Environmental impact Assessment and preliminary design for the Tuen Mun Western Bypass project, there is no estimation of completion date at the moment. The project will enhance the accessibility of the western New Territories from Hong Kong International Airport and Shenzhen.

Proposed Tuen Mun Western Bypass



Source: Savills Research & Consultancy

Tin Shui Wai will also benefit from the proposed Hung Shui Kiu New Development Area which is located to the west of the New Town. Hung Shui Kiu New Development Area will house around 218,000 people in 60,000 units. There is also a proposed Hung Shui Kiu West Rail Line Station, which will enhance the connectivity with Tin Shui Wai in the future.

The government has a long-term enhancement plan for Lau Fau Shan rural township and the surrounding area which will increase the attractiveness and accessibility for both local and overseas visitors. The enhancement programme includes a proposed Eco-tourist

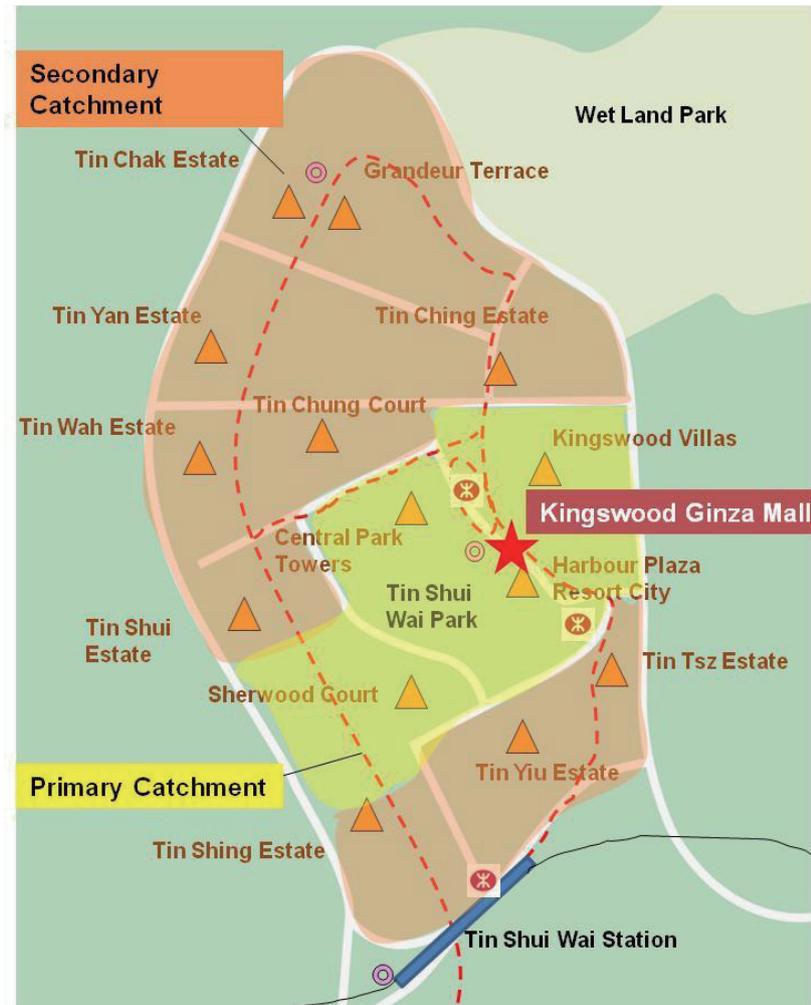
Destination, as well as improvements to the overall transportation network and facilities. According to the government, there is a proposed low-density residential development with facilities located to the west of Tin Shui Wai.

The development and infrastructure in the northwest New Territories is much more mature than that in the northeast New Territories. The MTR West Rail Line connects major areas of the northwest New Territories, including Tuen Mun, Tin Shui Wai and Yuen Long, with many areas of Kowloon, for example Tsim Sha Tsui and Hung Hom, while the Hong Kong-Shenzhen Western Corridor strengthens the integration of mainland China with the northwest New Territories. The Lok Ma Chau cross-border control point in Yuen Long also enhances the accessibility of mainland China.

In contrast, development of the northeast New Territories lags behind, and the proposed North East New Territories New Development Areas are in a long-term planning and consultation process.

3.3 Catchment area analysis

Primary and secondary catchment areas of Kingswood Ginza Mall



Source: Savills Research & Consultancy

3.3.1 Basic demographics

The Kingswood Ginza Mall catchment area can be separated into primary and secondary areas. The primary catchment area covers the developments around Kingswood Ginza Mall, such as Kingswood Villas, Central Park Towers I & II and Harbour Plaza Resort City (Hotel & Service Apartments). Residents in the primary catchment area are expected to patronise Kingswood Ginza Mall at least weekly.

The secondary catchment area is defined as the area within a 20-minute travel time via LRT and these residents are expected to travel to Kingswood Ginza Mall on a monthly basis. This secondary catchment area includes the entire residential area of Tin Shui Wai not already covered by the primary catchment area.

The basic demographics of the primary and secondary catchment areas are listed in the following table:

Basic demographics of the Kingswood Ginza Mall catchment areas²², 2011

	<u>Primary</u>	<u>Secondary</u>	<u>Hong Kong</u>
Population	45,665	242,236	7,071,576
Median age	(40.0)	(36.2)	41.7
	36-41	28-42	
No. of households	16,526	76,166	2,368,796
Average household size	2.76	3.18	2.9
Median monthly household income (HK\$)	26,966	15,103	20,500
Ratio between mortgage/loan repayment and median household income (%)	19.1-24.3 (average 20.5)	0.0-22.7 (average 8.8)	19.6
Ratio between rent and median household income (%)	21.7-27.4 (average 25.3)	6.4-42.5 (average 13.3)	13.9
Total disposable income pool (HK\$ million)	383.7	1,025.6	43,588.0
Per capita (household) monthly disposable income (HK\$)	23,216	13,466	18,401

Source: Census and Statistics Department, Savills Research & Consultancy

According to the 2011 Population Census, the total population of the primary and secondary catchment areas stood at 287,901, representing 92,692 households. The median monthly household income of the two catchment areas ranged from HK\$15,103 to HK\$26,966. The median monthly household income in the primary catchment is much higher than the territory-wide average, reflecting the middle-class status of a majority of residents.

The total disposable income pool is derived by deducting total mortgage/loan repayments and total rental payments of all households from the total monthly income of all households within a given catchment area. This income pool can be regarded as the maximum potential spending of all households within any given catchment area.

The total disposable income pools of the primary and secondary catchment areas were estimated at HK\$383.7 million and HK\$1,025.6 million respectively in 2011. Divided by the number of households in both areas, the per capita (household) disposable incomes of the primary and secondary catchment areas were HK\$23,216 and HK\$13,466 respectively. Again, the primary catchment has a much higher per capita monthly disposable income than the territory average of HK\$18,401 in 2011.

Assuming that the total disposable income of the primary and secondary catchment areas increased by 7.3%²³ from 2011 to Q1/2013, the per capita (household) monthly disposable incomes could have reached HK\$24,911 and HK\$14,449 in the primary and secondary catchments respectively.

²² The primary catchment is defined as Large Street Block Group (LSBG) no. 510/05,09-13,15-16,21-24 and the secondary catchment is defined as LSBG no. 510/01-04,06-08,14,17-20,25-40.

²³ Based on the growth rate of median household income from 2011 to Q1/2013, Census and Statistics Department

Aside from the primary and secondary catchments, there exists a temporary residents' catchment in the serviced suites in Tower 1 of the two-tower Harbour Plaza Resort City (1,102 rooms) who may possibly commute to Kingswood Ginza Mall at least weekly. The easy access to Tin Shui Wai via the Hong Kong-Shenzhen Western Corridor enhances the hotel visitor catchment from mainland China.

Benefiting from the Hong Kong-Shenzhen Western Corridor, mainland Chinese visitors may visit Kingswood Ginza Mall to shop on a regular basis (at least weekly) due to its convenient location as well as the diverse offerings available.

3.4 Competition analysis

Kingswood Ginza Mall is the largest shopping centre within both its primary and secondary catchment areas by some distance, with the only other mall within the primary catchment, Kingswood Richly Plaza (around 253,900 sq ft gross), only half the size. While there is no direct competition to Kingswood Ginza Mall, after considering location, size, catchment profile, and trade and tenant mix, we have selected Kingswood Richly Plaza, Chung Fu Plaza, Tin Yiu Plaza, Tin Shui Shopping Centre and Tin Chak Shopping Centre as comparable retail centres. Kingswood Ginza Mall is in a better competitive position than all of the other malls mentioned in terms of location, size or trade and tenant profile.

Kingswood Richly Plaza

Kingswood Richly Plaza is located in Locwood Court, Kingswood Villas and is the only other centre located within the primary catchment. Developed by Cheung Kong in 1992, the 253,900-sq ft gross commercial complex consists of three floors of retail and two basement floors of car parking, and was once the only shopping centre in Kingswood Villas until the opening of Kingswood Ginza Mall in 1999. Although located within the same housing estate, Kingswood Richly Plaza is in fact quite far away from Kingswood Ginza Mall (a 20-minute walk via Tin Shui Wai Park or four LRT stations away, approximately a 12-minute ride), and thus does not constitute direct competition to Kingswood Ginza Mall geographically.

Kingswood Richly Plaza has been stratified, with a number of shops being subdivided into smaller shops of less than 100 sq ft, although several zones such as Harajuku Zone and New Attitude Square exist. The trade and tenant mix profiles are diverse, ranging from trendy fashion and supermarkets to grocery stores. Kingswood Ginza Mall, which is under single ownership, enjoys the benefit of full property and leasing management, and therefore has control over the overall positioning of the entire mall and the flexibility to combine or subdivide shops to rebalance its trade and tenant mix from time to time.

Chung Fu Plaza

Chung Fu Plaza is located just to the north of Kingswood Ginza Mall — two LRT stations away (approximately a five-minute ride). The 395,600-sq ft gross shopping centre (including a fresh market and car park) is split into two phases with the nine-storey commercial/car park building (Phase 1) located in Tin Chung Court and the three-storey commercial building (Phase 2) located in Tin Yuet Estate, the two phases being linked by a footbridge on the 1/F across Tin Wah Road. Phase 1 and Phase 2 of Chung Fu Plaza were completed in 1999 and 2000 respectively, and its proximity to Kingswood Ginza Mall makes it a geographic competitor.

Owned and managed by another REIT listed in Hong Kong, Chung Fu Plaza has undergone two phases of extensive renovation which were completed in 2010. The plaza has had an upgrade of the arcade ceiling, wall finishes and lighting. The circulation flow of the south wing has been improved with the installation of new escalators in the central atrium. The overall trade mix has also been enhanced after the renovation, with a more balanced mix among the F&B, fashion, luxury products, convenience shopping and services sectors, and has attracted more branded and chain retailers to the plaza.

Chung Fu Plaza is a popular shopping destination for residents of the nearby public rental housing estates and HOS projects, namely Tin Yuet Estate and Tin Wah Estate as well as Tin Chung Court and Tin Fu Court. While it appears to be a direct competitor within Kingswood Ginza Mall's secondary catchment, Kingswood Ginza Mall still has an edge in terms of its larger size and wider range of retail offerings, including a cinema, within its primary catchment area, to which Chung Fu Plaza offers very little threat.

Tin Yiu Plaza

Tin Yiu Plaza, which is two LRT stations (approximately a five-minute ride) to the south of Kingswood Ginza Mall, is the shopping centre in Tin Yiu Estate. The four-storey commercial/car park complex has a floor area of 182,300 sq ft gross (including a fresh market and car park) and was completed in 1992. Geographically, it is a competing mall to Kingswood Ginza Mall.

Asset enhancement initiatives were carried out for this mall, which is owned by another Hong Kong-listed REIT, and after the renovation project was completed in 2008/2009 lettable retail space increased by around 30%. Circulation flow has also been enhanced by repartitioning large shops and introducing new escalators into the atrium space. Construction of a double-height curtain wall at the main entrance and renovation of the old-fashioned internal finishes have created a new signature look for the centre. The mall has attracted more chained retailers, mainly in the F&B and supermarket/convenience store trades, and together with a mixture of local fashion and comparable goods retailers, serves the daily and comparison shopping needs of local residents.

While Tin Yiu Plaza is reasonably busy, its key customer profile is still the local residents of Tin Yiu Estate and nearby schools, which constitutes some competition to Kingswood Ginza Mall in its secondary catchment, but poses little threat to the primary catchment area.

Tin Shui Shopping Centre

Tin Shui Shopping Centre is located to the west of Kingswood Ginza Mall in Tin Shui Estate, which is three LRT stations away (approximately an eight-minute ride). Completed in 1992, Tin Shui Shopping Centre comprises a two-storey commercial block and a four-storey commercial/car park block, which are connected internally, and the centre has a total floor area of 159,300 sq ft gross.

The centre underwent asset enhancement initiatives in 2012 with its two landmarks, Joy Square and the open-air Octagon Courtyard, being thoroughly renovated. To improve circulation within the shopping centre, a pair of new escalators has been incorporated to facilitate G/F to 1/F movement. To give a stronger sense of space, the Octagon Atrium floor has been raised for better accessibility and connectivity to the adjacent arcade, as well to Joy Square. After the asset enhancement initiatives, several new specialty restaurants opened at Tin Shui Shopping Centre to add to its F&B appeal, while the other trades are a mixture of local and chained operators.

With its location on the western boundary of Tin Shui Wai, Tin Shui Shopping Centre mainly serves the daily needs of the residents of Tin Shui Estate as well as students of nearby schools, which can be considered the secondary catchment of Kingswood Ginza Mall. It poses no threat to the primary catchment of Kingswood Ginza Mall due to its smaller size and remote location.

Tin Chak Shopping Centre

Tin Chak Shopping Centre is located in the northwest boundary of Tin Shui Wai in Tin Chak Estate, which is five LRT stations from Kingswood Ginza Mall (approximately a 15-minute ride). Completed in 2001, the centre has a floor area of 253,500 sq ft gross and comprises a four-storey commercial block and a four-storey car park block.

With its location on the edge of Tin Shui Wai, Tin Chak Shopping Centre mainly serves local residents from Tin Chak Estate, Tin Heng Estate and Tin Yat Estate. The majority of tenants are local, with a few chain operators in the F&B trade. It poses little threat to Kingswood Ginza Mall's secondary catchment and no threat at all to the primary catchment, mainly due to its remote location.

3.5 SWOT analysis

We have performed a SWOT analysis for Kingswood Ginza Mall as below:

Strengths

- Centrally located in Tin Shui Wai with convenient access via both LRT and buses
- High population density and reasonable level of income for both the primary and secondary catchments
- The hotel/serviced apartment above and the Wetland Park gives rise to a potential visitor catchment
- The largest centre within the Yuen Long District Council District
- Lack of direct competition

Weaknesses

- No weakness is identified.

Opportunities

- Increase in mainland Chinese day trippers favouring suburban shopping may benefit Kingswood Ginza Mall
- Upcoming infrastructure projects will further improve the accessibility of Tin Shui Wai
- The two proposed development areas in Hung Shui Kiu and Lau Fau Shan may provide opportunities for further catchment expansion

Threats

- A new shopping centre to be completed within Yuen Long District Council District may constitute some competition

3.6 Outlook

- Kingswood Ginza Mall is located in the heart of Tin Shui Wai new town, a predominantly residential area with ample supporting commercial/public facilities and the Wetland Park which acts as a tourist draw.
- It has a strong primary residential catchment (46,000 people) as well as a hotel catchment and faces no competition. As it is by far the biggest shopping centre in the Yuen Long District Council District, with a large four-screen cinema as its anchor and a much broader trade mix than most of its competitors (except Chung Fu Plaza), it also successfully draws some destination visitors from the secondary catchment area (242,000 people).
- With no near-term plans for large-scale shopping centre developments in the vicinity, we anticipate that the relatively strong position and competitive edge of Kingswood Ginza Mall can be retained.
- Some retail leakage within the secondary catchment, especially destination shopping and weekend patronage, may occur with the strengthening retail ambience in nearby areas such as Tuen Mun and Yuen Long. The repositioning and theming of Kingswood Ginza Mall, together with a proper short-to medium-term trade mix rebalancing may help to recapture some of this leakage.
- With its strong positioning within the primary catchment and relative attractiveness within the secondary catchment we expect rental growth at Kingswood Ginza Mall to follow the broader non-core market trend. The lease expiries of large occupiers in 2014 (around 50% of leases in terms of floor area) are expected to be renewed at market levels, with minimal impact on overall rental levels.
- Future potential demand may come from two proposed residential developments located to the south and northeast of Kingswood Ginza Mall, providing some 3,500 units. There is also potential for Kingswood Ginza Mall to tap the residential catchment of the two new development areas, namely Lau Fau Shan and Hung Shui Kiu.
- A hotel site at TSWTL 26, which has a GFA of around 280,000 sq ft, is also proposed and is expected to increase demand for retail space.

- With mainland Chinese visitors increasingly making day trips to suburban shopping centres in the northern and northwestern New Territories (Sheung Shui and Tuen Mun), and with the proposed construction of the Tuen Mun Western Bypass which will further improve Tin Shui Wai's accessibility to mainland Chinese tourists, Kingswood Ginza Mall is well positioned to receive more tourist patronage in the future.
- Nevertheless, a certain long-term rebalancing of trade and tenant mix to cater to these new catchment profiles will be necessary.

Rental forecast for Kingswood Ginza Mall, 2013E-2017E

	<u>Non-core market</u>	<u>Kingswood Ginza Mall</u>
	(%)	(%)
2013	+10 to 15	+10 to 15
2014	+10 to 15	+10 to 15
2015	+10 to 15	+10 to 15
2016	+5 to 10	+5 to 10
2017	+5 to 10	+5 to 10

Source: Savills Research & Consultancy

Limitations on the report

This report contains forward-looking statements which state Savills (Hong Kong) Limited's (the Consultant) beliefs, expectations, forecasts or predictions for the future. The Consultant stresses that all such forecasts and statements, other than statements of historical fact, outlined in this report should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forecasts involves assumptions about a considerable number of variables which are very sensitive to changing conditions. Variations of any one may significantly affect outcomes and the Consultant draws your attention to this.

The Consultant therefore can give no assurance that the forecasts outlined in this report will be achieved or that such forecasts and forward-looking statements will prove to have been correct and you are cautioned not to place undue reliance on such statements. The Consultant undertakes no obligation to publicly update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise, except as required by law, and all forward-looking statements contained in this summary report are qualified by reference to this cautionary statement.

The report is prepared by the Consultant for information only. While reasonable care has been exercised in preparing the report, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract. Interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No representation, warranty or covenant, express or implied, is given and no undertaking as to accuracy, reasonableness or completeness of the information contained in this report. In producing this report, the Consultant has relied upon external third-party information and on statistical models to generate the forward-looking statements. It should be noted, and it is expressly stated, that there is no independent verification of any of the external third-party documents or information referred to herein. This report is limited to the matters stated in it and no opinion is implied or may be inferred beyond the matters expressly stated herein.

Yours sincerely,
Savills (Hong Kong) Limited

Simon Smith
Senior Director
Head of Research & Consultancy

1. EXISTING INTERESTED PERSON TRANSACTIONS

Details of the existing Interested Person Transactions (excluding transactions of less than S\$100,000 (equivalent to HK\$635,200)) entered into between the Fortune REIT Group and certain entities within the CKH Group (the "Existing Interested Person Transactions") in the current financial year are set out below:

Interested Person	Nature of transaction	Area (sq. ft.)	Start date	Term (Years)	Value of Interested Person Transactions in respect of the Existing Properties (excluding transactions of less than S\$100,000 (HK\$635,200) each)	Percentage of audited NAV/NTA ⁽¹⁾
					(HK\$ million) ⁽²⁾	
AMTD Strategic Capital Limited	Tenancy at Hampton Loft	35,562	1 September 2013	3	22.4	0.13%
A.S. Watson Retail (HK) Limited	Tenancy at Metro Town	4,068	2 May 2013	3	7.1	0.04%
Cheung Kong Property Development Limited ⁽³⁾	Licence at Fortune Metropolis	31,383	15 April 2013	1	24.5	0.14%
	Licence at Fortune Metropolis	20,800	1 July 2013	1		
	Licence at Fortune Metropolis	14,713	1 July 2013	1		
Goodwell-Fortune Property Services Limited	Property management services	—	12 August 2013	5	268.5	1.57%
Hutchison Telephone Company Limited ⁽³⁾	Licence at Ma On Shan Plaza	—	1 April 2013	3	7.3	0.04%
Hutchison International Limited	Tenancy at Belvedere Square	14,592	1 January 2013	3	8.1	0.05%
PARKnSHOP (HK) Limited	Tenancy at Ma On Shan Plaza	47,410	10 August 2013	3	150.3	0.88%
	Tenancy at Metro Town	27,431	1 February 2013	3		
	Tenancy at Tsing Yi Square	9,425	1 June 2013	3		
	Tenancy at Fortune City One	24,151	1 July 2013	3		
Total					488.2	2.85%

Notes:

(1) Audited NAV/NTA of Fortune REIT as at 30 June 2013 of HK\$17,058.5 million.

(2) Exchange rate of S\$1.00 to HK\$6.3520 as at 3 January 2013.

(3) These are related to the usage of space of the Existing Properties.

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 Independent Unitholders. These procedures include the review and approval of such transactions by the Audit Committee. These transactions reported comply with the requirements of Chapter 9 of the Singapore Listing Manual.

2. RATIONALE AND BENEFIT OF EXISTING INTERESTED PERSON TRANSACTIONS

The existing Interested Person Transactions relate to leases signed by the various interested persons as tenants of the Existing Properties. In addition to contributing to the income of the Existing Properties, these tenants are, by and large, very well-known major retailers in Hong Kong. For instance, Park'N Shop, which is a part of PARKnSHOP (HK) Limited is a leading supermarket chain and Watsons (which is part of A.S. Watson Retail (HK) Limited) is one of the largest personal care retailers in Hong Kong. Their presence enhances shopper traffic at the Existing Properties thereby improving the attractiveness of the Existing Properties.

1. INFORMATION REGARDING THE LEASEHOLD TITLE TO THE KINGSWOOD GINZA PROPERTY

The Kingswood Ginza 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 (which said term is extended to 30 June 2047 under and by virtue of Section 6 of the New Territories Leases (Extension) Ordinance (Chapter 150 of the Laws of Hong Kong)) (the "Term") under a Government Lease 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 the New Grant No.3466, dated 21 May 1985 and made between the Target Company and the District Lands Officer, Yuen Long on behalf of the Governor of Hong Kong (such compliance being evidenced by a Certificate of Compliance dated 13 May 1993 and registered in the Land Registry by Memorial No.YL552222 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.1 is concerned); a Certificate of Compliance dated 18 August 1999 and registered in the Land Registry by Memorial No.YL872358 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.2 is concerned); a Certificate of Compliance dated 13 January 1995 and registered in the Land Registry by Memorial No.YL616396 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.3 is concerned); a Certificate of Compliance dated 20 December 2002 and registered in the Land Registry by Memorial No.YL1030741 (in so far as Tin Shui Wai Town Lot No.4 is concerned); a Certificate of Compliance dated 10 August 1999 and registered in the Land Registry by Memorial No.YL871142 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.5 is concerned); a Certificate of Compliance dated 23 April 1999 and registered in the Land Registry by Memorial No.YL858891 (in so far as Tin Shui Wai Town Lot No.6 is concerned); and a Certificate of Compliance dated 26 August 1999 and registered in the Land Registry by Memorial No.YL873069 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.7 is concerned)) as varied or modified by a Modification Letter dated 10 November 1989 and registered in the Land Registry by Memorial No.YL434322 (in so far as Tin Shui Wai Town Lots Nos.1, 2, 3, 4, 5, 6 and 7 are concerned); a Modification Letter dated 5 May 1992 and registered in the Land Registry by Memorial No.YL503886 (in so far as The Remaining Portion of Tin Shui Wai Town Lot No.1 and Tin Shui Wai Town Lots Nos.2, 3, 4, 5, 6 and 7 are concerned); a Modification Letter dated 27 November 1993 and registered in the Land Registry by Memorial No.YL573371 (in so far as Tin Shui Wai Town Lots Nos.4, 5 and 6, and The Remaining Portion of Tin Shui Wai Town Lot No.7 are concerned); a Modification Letter dated 7 January 1994 and registered in the Land Registry by Memorial No.YL583103 (in so far as Tin Shui Wai Town Lot No.4 is concerned); and a Modification Letter dated 11 December 1995 and registered in the Land Registry by Memorial No.YL659036 (in so far as Tin Shui Wai Town Lot No.6 is concerned).

The Government Grant binds the Target Company as the Target Company is the grantee thereunder.

- (a) Under Special Condition (12)(b) of the Government Grant, the grantee shall throughout the Term at its own expense maintain the recreational facilities and facilities ancillary thereto provided by the grantee within the lot in addition to the Government Institutional and Community facilities in good and substantial repair and condition and shall operate the same to the satisfaction of the Director of Lands, and such facilities shall only be used by the residents of the building(s) erected within the lot and their bona fide visitors and by no other person(s) whatsoever.

- (b) Under Special Condition (13) of the Government Grant, the grantee shall use its best endeavours to prevent any hawker from carrying on business within the lot, and notices in English and Chinese to the effect that hawking is prohibited within the lot shall be displayed prominently by the grantee near all entrances to the lot.
- (c) Under Special Condition (15)(c) of the Government Grant, there is excepted and reserved, throughout the Term, unto the Government and its contractors, tenants, occupiers, lessees and licencees of any adjoining or neighbouring land and all others authorized by it a right to affix to the exterior of any building(s) erected on or in such other positions within the lot as the Director of Lands shall require such equipment, cables and wires as the Director of Lands shall deem necessary to provide lighting for roads, walkways, footpaths, open spaces and all other areas within adjoining or neighbouring lot to which the general public shall have access and such traffic directional information and other signs as the Director of Lands shall deem necessary.
- (d) Under Special Condition (17)(e) of the Government Grant, the grantee shall not assign, mortgage, charge or otherwise dispose of or part with possession of any undivided shares allocated to the common areas of the lot or any interest therein or enter into any agreement so to do save that with the prior written consent of the Registrar General (Land Officer) who shall have an absolute discretion in this respect the grantee 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 the grantee or the proposed assignee of a Bank Bond in favour of the Government for securing the performance by the grantee of its obligations under Special Condition (18) of the Government Grant.
- (e) Under Special Condition (18)(a) of the Government Grant, the grantee shall in accordance with the provisions of the DMC with regard to costs and charges, throughout the Term and notwithstanding that it has assigned or otherwise disposed of the lot or some interest therein, well and sufficiently manage, insure, decorate, repair, maintain and cleanse the lot and all buildings and structures erected thereon and all walls, banks, foundations, supports, cutting, conduits, ventilation, air conditioning and humidification apparatus, electrical and gas installations, telephone equipment, refuse collection, watering and fertilization systems, channels, water-courses, roads, paths, gardens, lawns open spaces, landscaped areas, parking, loading, unloading, manocuvring and service areas, recreational and other facilities thereunto belonging and which shall in anywise belong or appertain to the lot to the satisfaction of the Director of Lands.
- (f) Under Special Condition (18)(b) of the Government Grant, any breach of the said Special Condition (18)(a) shall, notwithstanding that such breach is in respect of some part of the lot or some building or part of some building thereon to which the grantee does not have the right to the exclusive use and occupation, be deemed to be a breach of a covenant, condition or stipulation in a government lease in respect of the grantee's relevant interest in the lot for the purposes of Section 7 of the Government Rights (Re-entry and Vesting Remedies) Ordinance so as to enable such relevant interest to be vested, in the event of any breach occurring, in The Financial Secretary Incorporated.

- (g) Under Special Condition (19)(a) of the Government Grant, the grantee shall permit all members of the general public at all times and for all lawful purposes to utilize and pass and repass over along and through the open spaces, roadways, yards, passages, arcades, walkways, lobbies, landings, stairways, escalators, lifts and other common areas within the lot.
- (h) Under Special Condition (19)(c) of the Government Grant, the grantee shall at all times maintain the common areas and the parking and service zones in a clean and tidy condition and well lit to the satisfaction of the Director of Lands.
- (i) Under Special Condition (20) of the Government Grant, the grantee shall at all times throughout the Term at its own expense and to the satisfaction of the relevant Authorities ensure adequate access for fire, ambulance, police and other emergency appliances, vehicles and personnel to all buildings and structures erected on the lot and comply with the requirements of the relevant Authorities.
- (j) Under Special Condition (26)(b) of the Government Grant, when called upon to do so by the Director of Lands, the Grantee shall construct and provide at its own expense, in a good and workmanlike manner, with such materials, at such location, of such size and to such standards as the Director of Lands shall approve and in all respects in accordance with the Technical Schedules annexed to the Government Grant Refuse Collection Point(s) and the Police Reporting Centre(s) at ground floor Level.
- (k) Under Special Condition (26)(c) of the Government Grant, the Grantee shall, upon demand by the Director of Lands, surrender the said Refuse Collection Point(s) to the Government free of charge.
- (l) Under Special Condition (33)(a) of the Government Grant, the grantee shall at its own expense and to the satisfaction of the Director of Fire Services provide and throughout the Term maintain an access for fire appliances and fire personnel to any building(s) erected on the lot.
- (m) Under Special Condition (43)(a)(iv) of the Government Grant, the grantee covenants and agrees with the Government not to close or divert any traffic lane or street without the prior written consent of the Director of Lands.

2. INFORMATION REGARDING THE DEED OF MUTUAL COVENANT TO THE KINGSWOOD GINZA PROPERTY

- 2.1 The Kingswood Ginza Property is subject to the DMCs referred to in column B of the Table below. Each of the DMCs is to make provision for the maintenance and management of the development and land as set out in column C of the Table below opposite to such DMC and the common areas and facilities thereof and to define and regulate the rights, interests and obligations of the owners thereof and to provide for a due proportion of the relevant expenses to be borne by the owners.

Each of the DMCs binds all the parties thereto and all owners of undivided shares of and in the land and development to which it relates. The Target Company, as the owner of the Kingswood Ginza Property and being a party to the DMCs, is bound by the DMCs. Upon Completion, Fortune REIT will also be a party to the DMCs through its acquisition and ownership of the Target Company.

APPENDIX 7 SUMMARY OF GOVERNMENT GRANT AND DEEDS OF MUTUAL COVENANT

	Property (column A)	DMC (column B)	Development and Land (column C)	Manager (column D)
1.	Retail area, external walls, reserve shares, and common areas and common facilities (the " Locwood Court Property ")	The deed of mutual covenant dated 6 June 1992 made between the Target Company (as registered owner) and Lee Chun Kwong and Li Kit Yee (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL508827 (the " Locwood Court DMC ")	Locwood Court of Kingswood Villas erected on The Remaining Portion of Tin Shui Wai Town Lot No.1	Prompton Property Management Limited
2.	Kindergarten premises, 5 kindergarten car parking spaces, 2 kindergarten loading and unloading bays, and common areas and common facilities	The deed of mutual covenant dated 26 July 1993 made between the Target Company (as registered owner) and Poon Lai Kwan Connie and Fenn Benjamin (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL561455 (the " Sherwood Court DMC ")	Sherwood Court of Kingswood Villas erected on The Remaining Portion of Tin Shui Wai Town Lot No.2	Prompton Property Management Limited
3.	Kindergarten, and common areas and common facilities	The deed of mutual covenant dated 19 January 1994 made between the Target Company (as registered owner) and Wu Sau Han (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL581265 (the " Chestwood Court DMC ")	Chestwood Court of Kingswood Villas erected on The Remaining Portion of Tin Shui Wai Town Lot No.3	Prompton Property Management Limited
4.	Kingswood Ginza Mall, car parking spaces, and common areas and common facilities	The deed of mutual covenant and management agreement dated 26 July 2013 made between the Target Company (as first owner) and Harbour Plaza Resort City Limited (as first purchaser) and Citybase Property Management Limited (as manager) and registered in the Land Registry by Memorial No.13082202100037 (the " Kingswood Ginza Mall DMC ")	Kingswood Ginza Phase 1 and Kingswood Ginza Phase 2 erected on Tin Shui Wai Town Lot No.4	Citybase Property Management Limited
5.	Common areas and common facilities	The deed of mutual covenant dated 15 July 1996 made between the Target Company (as registered owner) and Ko Wing Kwai Johnny and Ho Yee Mei May (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL688035 (the " Lynwood Court DMC ")	Lynwood Court of Kingswood Villas erected on The Remaining Portion of Tin Shui Wai Town Lot No.5	Prompton Property Management Limited

APPENDIX 7	SUMMARY OF GOVERNMENT GRANT AND DEEDS OF MUTUAL COVENANT
-------------------	---

	<u>Property (column A)</u>	<u>DMC (column B)</u>	<u>Development and Land (column C)</u>	<u>Manager (column D)</u>
6.	2 kindergartens, 8 kindergarten car parking spaces, and common areas and common facilities	The deed of mutual covenant dated 19 June 1998 made between the Target Company (as registered owner) and Chau Mee Yim Cindy (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL820616 (the " Maywood Court DMC ")	Maywood Court of Kingswood Villas erected on Tin Shui Wai Town Lot No.6	Prompton Property Management Limited
7.	Kindergarten premises, 5 kindergarten car parking spaces, 2 kindergarten loading and unloading bays, and common areas and common facilities	The deed of mutual covenant dated 18 May 1995 made between the Target Company (as registered owner) and Li Cheuk Hang (as first purchaser) and Prompton Property Management Limited (as manager) and registered in the Land Registry by Memorial No.YL626029 (the " Kenswood Court DMC ")	Kenswood Court of Kingswood Villas erected on The Remaining Portion of Tin Shui Wai Town Lot No.7	Prompton Property Management Limited

2.2 The Locwood Court DMC also makes provision for the followings in respect of The Remaining Portion of Tin Shui Wai Town Lot No.1:

- (a) The maintenance and management of any private streets, roads and lanes which have not been surrendered to the Government and which the grantee and its successors-in-title are obliged to maintain under the Government Grant;
- (b) The maintenance and management of the landscaped areas which the grantee and its successors-in-title are obliged to maintain in accordance with the Landscaping Proposals under the Government Grant;
- (c) The maintenance and management of the external wall of the Government Accommodation, the refuse collection point (if not surrendered to the Government), recreational facilities and facilities ancillary thereto, access for fire service appliances and personnel, fire service installations and equipment which are required to be provided and maintained under the Government Grant;
- (d) Under Clauses 10 and 11 of Part A of Section III of the Locwood Court DMC, the Target Company has the exclusive right to allocate the reserve Shares to any part of Locwood Court of Kingswood Villas (save and except the Government Accommodation), and to allocate Management Shares to such part so allocated with the reserve Shares.

- 2.3 The Sherwood Court DMC, the Chestwood Court DMC, the Lynwood Court DMC, the Maywood Court DMC and the Kenswood Court DMC also make provision for the followings in respect of The Remaining Portion of Tin Shui Wai Town Lot No.2, The Remaining Portion of Tin Shui Wai Town Lot No.3, The Remaining Portion of Tin Shui Wai Town Lot No.5, Tin Shui Wai Town Lot No.6 and The Remaining Portion of Tin Shui Wai Town Lot No.7 respectively:
- (a) The maintenance and management of any private streets, roads and lanes which have not been surrendered to the Government and which the grantee and its successors-in-title are obliged to maintain under the Government Grant;
 - (b) The maintenance and management of the landscaped areas which the grantee and its successors-in-title are obliged to maintain in accordance with the Landscaping Proposals under the Government Grant;
 - (c) The maintenance and management of the refuse collection point (if not surrendered to the Government), recreational facilities and facilities ancillary thereto, access for fire service appliances and personnel, fire service installations and equipment which are required to be provided and maintained under the Government Grant.
- 2.4 The Kingswood Ginza Mall DMC also makes provision for the followings in respect of Tin Shui Wai Town Lot No.4:
- (a) The maintenance and management of any private streets, roads and lanes which have not been surrendered to the Government and which the grantee and its successors-in-title are obliged to maintain under the Government Grant;
 - (b) The maintenance and management of the landscaped areas which the grantee and its successors-in-title are obliged to maintain in accordance with the Landscaping Proposals under the Government Grant;
 - (c) The maintenance and management of the refuse collection point (if not surrendered to the Government), access for fire service appliances and personnel, fire service installations and equipment which are required to be provided and maintained under the Government Grant.
- 2.5 The Target Company is holding the undivided shares allocated to the common areas and common facilities of the Kingswood Development for the benefit of all owners of the respective lots or such parts thereof which the common areas exclusively serve.

APPENDIX 8	KINGSWOOD CKH INTERESTED PERSONS TENANCY AND LICENCE AGREEMENTS
-------------------	--

Details of the Kingswood CKH Interested Persons Tenancy and Licence Agreements are set out in the table below. The aggregate licence fees derived or to be derived from the Kingswood CKH Interested Persons Tenancy and Licence Agreements is estimated at HK\$91.19 million.

<u>Interested Person</u>	<u>Nature of Transaction</u>	<u>Area</u> (sq.ft.)	<u>Start Date</u>	<u>Term</u> (Years)	<u>Value of Interested Person Transactions (excluding transactions of less than S\$100,000 (HK\$635,200) each)</u> (HK\$ million) ⁽²⁾	<u>Percentage of audited NAV/NTA⁽¹⁾</u>
A.S. Watson Retail (HK) Limited	Tenancy	7,290	1 March 2011	3	7.76	0.05%
	Tenancy	2,300	1 May 2011	3	4.15	0.02%
Hutchison Telephone Company Limited ⁽³⁾	Licence	—	1 August 2012	3	3.74	0.02%
	Licence	—	1 August 2012	3	2.95	0.02%
Kingswood Property Services Limited ⁽³⁾	Licence	617	16 March 2012	2	1.17	0.01%
PARKnSHOP (HK) Limited	Tenancy	7,007	1 July 2013	3	14.20	0.08%
	Tenancy	74,576	1 March 2011	3	57.22	0.34%
Total					91.19	

Notes:

- (1) Audited NAV/NTA of Fortune REIT as at 30 June 2013 of HK\$17,058.5 million.
- (2) Exchange rate of S\$1.00 to HK\$6.3520 as at 3 January 2013.
- (3) These are related to the usage of space of the Kingswood Ginza Property.

1. DISCLOSURE OF INTERESTS IN UNITS

Unit Capital

The total number of issued units as at the Latest Practicable Date is 1,847,692,532 Units.

Holdings of Significant Holders and Other Unitholders

As at the Latest Practicable Date, each of the following persons was considered a "Significant Holder", and hence a Connected Person of Fortune REIT, for the purpose of the REIT Code:

Name	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Focus Eagle Investments Limited ⁽¹⁾	413,074,684	22.35%	—	—
Cheung Kong ⁽¹⁾	—	—	525,630,684	28.44%
Schroders Plc ⁽²⁾	—	—	233,751,000	12.65%

In addition to the Significant Holders as disclosed above, each of the following persons held, or was deemed to hold 5% or more of the issued units as at Latest Practicable Date:

Name	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Ballston Profits Limited ^{(1), (3)}	112,556,000	6.09%	—	—
Hutchison Whampoa Limited ⁽¹⁾	—	—	112,556,000	6.09%

Notes:

- (1) Focus Eagle Investments Limited was an indirect wholly-owned subsidiary of Cheung Kong; and Ballston Profits Limited was an indirect wholly-owned subsidiary of Hutchison Whampoa Limited, which in turn was 49.9% owned by Cheung Kong. Therefore, Cheung Kong was deemed to hold 525,630,684 Units, of which: (i) 413,074,684 Units were held by Focus Eagle Investments Limited; and (ii) 112,556,000 Units were held by Ballston Profits Limited; Hutchison Whampoa Limited was deemed to hold 112,556,000 Units, which were held by its indirect wholly-owned subsidiary, Ballston Profits Limited.
- (2) Schroders Plc was deemed to be interested in 233,751,000 Units of which:
 - (a) 97,403,000 Units were held by Schroder Investment Management Limited;
 - (b) 72,342,000 Units were held by Schroder Investment (Singapore) Limited;
 - (c) 63,886,000 Units were held by Schroder Investment (Hong Kong) Limited; and
 - (d) 120,000 Units were held by Schroder Investment Management (Guernsey) Limited.
- (3) A director of Ballston Profits Limited, Mr. Robin Cheng Khoong Sng, is the spouse of Mrs. Sng Sow-Mei, an independent non-executive Director, a member of the Audit Committee and the Independent Board Committee.

Interests of the Manager

As at the Latest Practicable Date, the Manager held 5,594,236 Units, or approximately 0.30% of the issued units of Fortune REIT.

Interests of the Directors and Senior Executives

Details of the unitholding interests of the Directors and senior executives in Fortune REIT as at the Latest Practicable Date were as follows:

Name of Directors	Direct interest		Deemed interest	
	Number of Units held long position	Percentage of Unitholdings	Number of Units held long position	Percentage of Unitholdings
Lim Hwee Chiang ⁽¹⁾	—	—	7,694,236	0.42%
Sng Sow-Mei (alias Poon Sow Mei)	220,000	0.01%	—	—

Note:

- (1) Mr. Lim Hwee Chiang was deemed to be interested in a total of 7,694,236 Units of which:
- 5,594,236 Units were held by the Manager (a wholly-owned subsidiary of ARA), Mr. Lim was deemed to be interested in these Units by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporation including ARA; and
 - 2,100,000 Units were held by Citibank Nominees Singapore Pte. Ltd. (as nominee for JL Philanthropy Ltd). The beneficiary of JL Philanthropy Ltd is JL Charitable Settlement and Mr. Lim Hwee Chiang is the settlor of JL Charitable Settlement.

No person is proposed to be appointed as a Director of the Manager in connection with the Acquisition or any other transactions contemplated in relation to the Acquisition.

Save as disclosed above, none of the Manager, the Directors and the chief executive of the Manager is interested (or deemed to be interested) in Units, or held any short position in Units, and the Manager is not aware of any Connected Persons of Fortune REIT who were interested (or deemed to be interested) in Units as at the Latest Practicable Date.

So far as is known to the Directors or chief executive of the Manager:

- save as disclosed in this Circular, none of the Directors and the Unitholders with an interest in more than 5% of all Units in issue had an interest, direct or indirect, in the Acquisition; and
- save as disclosed in this Circular, none of the Directors or chief executives of the Manager had any interests or short positions in the Units of Fortune REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed to the Manager and the Hong Kong Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), which the Trust Deed, subject to certain exceptions, deems to apply to the Directors and chief executive of the Manager, the Manager and each Unitholder and all persons claiming through or under them.

2. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

Save as disclosed in this Circular, as at the Latest Practicable Date:

- (a) none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since the date that the latest published audited accounts of Fortune REIT were prepared, acquired or disposed of by (or leased to) or are proposed to be acquired or disposed of by (or leased to) Fortune REIT;
- (b) none of the Directors or proposed Directors was materially interested in any contract or arrangement entered into by Fortune REIT and subsisting at the date of this Circular which was significant in relation to Fortune REIT's business; and
- (c) none of the Directors or proposed Directors or any of their associates had interests in a business which competes or is likely to compete, either directly or indirectly, with Fortune REIT's business.

3. STATEMENT IN RELATION TO FINANCIAL POSITION

The Manager confirms that, as at the Latest Practicable Date, there had not been any material adverse change in the financial or trading position of Fortune REIT since the date that the latest published audited accounts of Fortune REIT were prepared.

4. WORKING CAPITAL

Taking into account the expected completion date of the Transaction and the financial resources available to the Enlarged Group, including its internally generated funds, existing banking facilities and the New Facilities, the Manager believes that the Enlarged Group has sufficient liquid assets to meet its working capital and operating requirements for the 12 month period commencing from the date of this Circular. To the extent that Fortune REIT makes any acquisitions or undertakes major asset enhancement initiatives, it may be required to rely on external borrowings and/or Unit or debt securities offerings to finance such acquisitions or asset enhancement initiatives.

5. INDEBTEDNESS

Indebtedness of Fortune REIT

As at 31 July 2013, Fortune REIT had total bank borrowings drawn down of HK\$4,768 million.

The facilities were secured by, inter alia, mortgages over certain investment properties. The Trustee has provided guarantees for the facilities subject to the recourse of lenders being limited to the Deposited Property of Fortune REIT.

Save as disclosed above and apart from the intra-group liabilities, Fortune REIT did not have any loan capital issued and outstanding, nor had Fortune REIT agreed to issue any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the Latest Practicable Date.

Indebtedness of Target Company

As at 31 July 2013, the Target Company had unsecured total borrowing of HK\$1,086 million from its immediate holding company.

Save as disclosed above and apart from the intra-group liabilities, the Target Company did not have any loan capital issued and outstanding, nor had the Target Company agreed to issue any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the Latest Practicable Date.

6. EXPERTS AND CONSENTS

Each of the Independent Financial Advisers, the Independent Property Valuers, the Market Consultant, the Auditors and the Reporting Accountants has given and has not withdrawn its written consent to the inclusion of its name in this Circular. Each of the parties above where relevant has also given their consent to the inclusion of its name in the Letter from the Independent Financial Advisers, the accountants' report in respect of the Target Company as set out in Appendix 2 headed "Accountants' Report in respect of the Target Company", the Independent Property Valuers' Property Valuation Reports, the Market Consultant's Report and all references thereto, in the form and context in which they are included in this Circular.

The following are the qualifications of the experts who have been named in this Circular or have given opinion or advice which are contained in this Circular.

Deloitte Touche Tohmatsu	Certified Public Accountants
Kim Eng Securities (Hong Kong) Limited	A corporation licenced to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO in Hong Kong
Maybank Kim Eng Securities Pte Ltd	A corporation licenced under the SFA in Singapore to conduct the regulated activities which include advising on corporate finance
Jones Lang LaSalle Limited	Chartered Surveyors and Valuers
Savills Valuation and Professional Services Limited	Chartered Surveyors and Valuers
Savills (Hong Kong) Limited	Market Consultant

As at the Latest Practicable Date, none of the experts had any interest in Fortune REIT or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in Fortune REIT.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since 20 April 2010, being the date on which the Units were first listed on the Hong Kong Stock Exchange, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to Fortune REIT.

7. LITIGATION

As at the Latest Practicable Date, none of Fortune REIT, the Manager, the Trustee (in its capacity as the trustee of Fortune REIT), the Target Company, or any of the Group Companies were involved in any litigation or claims of material importance and no litigation or claims of material importance, by or against Fortune REIT, the Manager, the Trustee, the Target Company or any of the Group Companies, was pending or threatened.

8. MATERIAL CONTRACTS

Save as disclosed in the Introduction Listing Document, the Belvedere Square and Provident Square Circular and Fortune REIT's previous announcements on the Hong Kong Stock Exchange and the SGX-ST, and save for the documents referred to in paragraphs 9(a) and 9(b) below, Fortune REIT has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date in this Circular. Please refer to section 2.4 of the "Letter to the Unitholders" headed "Share Purchase Agreement" for further details of the Transaction Documents, the Introduction Listing Document and Belvedere Square and Provident Square Circular for details of the other material contracts.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at no charge during normal business hours at the offices of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days, from the date of this Circular, up to and including the date falling three months after the date of this Circular:

- (a) the Share Purchase Agreement (and the attachments thereto, and all material contracts relating to the Acquisition mentioned in this Circular);
- (b) the placement agreement dated 30 July 2013 entered into between the Manager and the Joint Lead Managers and Underwriters;
- (c) the pricing determination supplement dated 30 July 2013 entered into between the Managers and the Joint Lead Managers and Underwriters;
- (d) the mandate letters in respect of the New Facilities dated 30 July 2013 entered into between the Manager, DBS Bank Ltd. and Standard Chartered Bank (Hong Kong) Limited;
- (e) the consolidated audited accounts of Fortune REIT for the period from 1 January 2012 to 31 December 2012, and the consolidated audited accounts of Fortune REIT for the period from 1 January 2013 to 30 June 2013;
- (f) the Accountants' Report;
- (g) the unaudited pro forma financial information of the Enlarged Group disclosed under Appendix 3 headed "Pro Forma Financial Information of the Enlarged Group";
- (h) the Letter from the Independent Board Committee and the Audit Committee;
- (i) the Letter from the Independent Financial Advisers;

- (j) the Independent Property Valuers' Property Valuation Reports;
- (k) the Market Consultant's Report;
- (l) the Introduction Listing Document;
- (m) the written consents referred to in section 6 headed "Experts and Consents" of this Appendix;
- (n) the MOU Announcement;
- (o) the Placement Announcements;
- (p) the announcement dated 28 August 2013 made by the Manager in relation to the Transaction;
- (q) the annual reports of Fortune REIT for the three years ended 31 December 2012 referred to in Appendix 1 headed "Financial Information of Fortune REIT"; and
- (r) all material contracts disclosed under section 8 headed "Material Contracts of this Appendix".

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as Fortune REIT continues to be in existence.

NOTICE OF EXTRAORDINARY GENERAL MEETING

FORTUNE
置富產業信託 **REIT**

Fortune Real Estate Investment Trust

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

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

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

Managed by



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an **EXTRAORDINARY GENERAL MEETING** (“EGM”) of the Unitholders (the “Unitholders”) of Fortune Real Estate Investment Trust (“**Fortune REIT**”) will be held at 11:00 a.m. on 16 September 2013 at Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong. Any Unitholder or depositor or proxy who wishes to take part in the EGM from Singapore, may attend via video conference which shall be held at Room 326, Level 3 Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593. Please be on time to avoid disrupting the EGM which will commence sharply on Monday, 16 September 2013 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution:

ORDINARY RESOLUTION

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular dated 28 August 2013 (the “**Circular**”).

THAT approval be and is hereby given for:

- (a) the Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction, including the assumption of Kingswood CKH Interested Persons Tenancy and Licence Agreements); and
- (b) the Waiver Modification and Extension, including the proposed new annual monetary limits for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015,

as more fully described in the Circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

AND THAT authorisation be granted to the Manager, any director of the Manager, the Trustee and any authorised signatory of the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager, the Trustee or such authorised signatory of the Trustee, as the case may be, may consider expedient or necessary or in the interest of Fortune REIT to give effect to all matters in relation to the Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction) and to the New Continuing Connected Party Transactions generally."

By Order of the Board
ARA ASSET MANAGEMENT (FORTUNE) LIMITED
(as manager of Fortune Real Estate Investment Trust)

ANG Meng Huat, Anthony
Executive Director and Chief Executive Officer

Singapore, Hong Kong, 28 August 2013

Singapore office and registered address:

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

Hong Kong office:

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

Notes:

1. A Unitholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. The person appointed to act as a proxy need not be a Unitholder.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
3. Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders of Fortune REIT in respect of such Unit shall alone be entitled to vote in respect thereof.
4. The Register of Unitholders will be closed from Thursday, 12 September 2013 to Monday, 16 September 2013, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the meeting convened by the above notice, all Unit certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Unit

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders) for registration by 4:30 p.m. on Wednesday, 11 September 2013 or to the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders) for registration by 5:00 p.m. on Wednesday, 11 September 2013.

5. In compliance with the Trust Deed, the REIT Code and the Singapore Listing Manual, the CKH Group and Manager Group and their respective associates, subsidiaries and associated companies shall abstain from voting on the EGM Resolution as more particularly described in sections 10.5 and/or 11.6 of the Circular, except pursuant to a proxy where a specific direction as to voting is given.
6. Any Unitholder or depositor or proxy who wishes to take part in the EGM from Singapore, may attend via video conference which shall be held at Room 326, Level 3 Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593.

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

PROXY FORM

**PROXY FORM
— EXTRAORDINARY GENERAL MEETING**

FORTUNE REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore pursuant to a trust deed dated 4 July 2003 (as amended) and authorised as a collective investment scheme under section 286 of the Securities and Futures Act, Chapter 289 of Singapore) (A collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

IMPORTANT

PLEASE READ THE NOTES TO THE PROXY FORM.

**PROXY FORM
EXTRAORDINARY GENERAL MEETING**

I/We _____ (Name)

of _____ (Address)

being a unitholder/unitholders of Fortune Real Estate Investment Trust ("Fortune REIT"), hereby appoint:

Name	Address	Identification/ Passport Number	Proportion of Unitholdings	
			No. of Units	%

and/or (delete as appropriate)

Name	Address	Identification/ Passport Number	Proportion of Unitholdings	
			No. of Units	%

or, both of whom failing, the Chairman of the Extraordinary General Meeting ("EGM") as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the EGM of Fortune REIT to be held at Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong on 16 September 2013 at 11:00 a.m. and any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolution to be proposed at the EGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the EGM.

No.	Resolution	To be used in the event of a poll	
		No. of Votes For*	No. of Votes Against*
1.	(a) The Transaction (including the Acquisition and the other transactions contemplated under, associated with and/or related to the Transaction, including the assumption of Kingswood CKH Interested Persons Tenancy and Licence Agreements); and (b) the Waiver Modification and Extension, including the proposed new annual monetary limits for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015.		

* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Completion and delivery of this form of proxy will not preclude you from attending and voting at the EGM if you so wish.

Dated this _____ day of _____ 2013

Total number of Units held

Signature(s) of Unitholder(s)/Common Seal

PROXY FORM

IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM BELOW

Notes to Proxy Form

1. Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
2. A Unitholder entitled to attend and vote at the EGM is entitled to appoint one or two proxies to attend and vote in his stead.
3. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
4. A proxy needs not be a Unitholder but must attend the EGM to represent the Unitholder.
5. A Unitholder should insert the total number of Units held. If the Unitholder has Units registered in his name in the principal register of Unitholders (the "**Singapore Unit Register**") or the Hong Kong register of Unitholders (the "**Hong Kong Unit Register**" and together with the Singapore Unit Register, the "**Unit Registers**"), he should insert the aggregate number of Units registered in his name on the Unit Registers. If the Unitholder has Units entered against his name in the Depository Register maintained by the Central Depository (Pte) Limited ("**CDP**"), he should insert that number of Units. If the Unitholder has Units entered against his name in the said Depository Register, as well as registered in his name in the Unit Registers, he should insert the aggregate number of Units entered against his name in the Depository Register and Unit Registers. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by Unitholder.
6. In the case of joint Unitholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Unitholder(s), and for this purpose seniority will be determined by the order in which the names stand on the Depository Register and/or the Register of Unitholders in respect of the relevant joint holding.
7. Any alteration made to this form of proxy must be initialled by the person who signs it.
8. The instrument appointing a proxy or proxies must be lodged at: (a) the Singapore Unit Registrar, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore Unitholders); or (b) the Hong Kong Unit Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Unitholders), not less than forty-eight (48) hours before the time appointed for EGM.
9. The instrument appointing a proxy or proxies must be executed under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
10. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must (failing previous registration with the Manager) be lodged with the instrument of proxy; failing which the instrument may be treated as invalid.
11. The Manager shall be entitled to reject a Proxy Form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of Units entered in the Depository Register, the Manager may reject a Proxy Form if the Unitholder, being the appointor, is not shown to have Units entered against his name in the Depository Register as at 48 hours before the time appointed for holding the EGM, as certified by CDP to the Manager.
12. All Unitholders will be bound by the outcome of the EGM regardless of whether they have attended or voted at the EGM.
13. For so long as Fortune REIT is a SFC-authorized REIT, at any meeting a resolution put to the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting.