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Fortune Real Estate Investment Trust

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

(Stock Code: 778)

**Managed by
ARA Asset Management (Fortune) Limited**

CONNECTED PARTY TRANSACTION IN RELATION TO THE ACQUISITION OF RETAIL SHOPS AND PUBLIC CAR PARK LOTS AT STARS OF KOVAN, SINGAPORE

On 5 August 2022, the Purchaser (being an indirect wholly-owned SPV of Fortune REIT) entered into the Sale and Purchase Agreement with the Vendor to purchase the leasehold interest in the Target Property (together with the Plant and Equipment). The Target Property forms part of the Development known as "Stars of Kovan" located at 988 Upper Serangoon Road, Singapore 534733. The Target Property consists of 36 retail strata lots and one public car park strata lot.

The Target Property is sold by the Vendor subject to and with the rights, benefits and covenants of the Occupation Agreements and the Season Parking Contracts, which will be assigned to the Purchaser on Completion. The Target Property is positioned as a neighbourhood mall, catering for the daily needs and convenience of nearby residents.

The Consideration (exclusive of GST) for the Target Property (together with the Plant and Equipment), being SGD88 million, is payable by the Purchaser to the Vendor and/or other part(ies) as the Vendor directs in cash in full on Completion. The Consideration represents a 7.4% discount from the Appraised Property Value of SGD95 million as at 30 June 2022.

The Vendor, being an indirect wholly-owned subsidiary of CKA (a substantial Unitholder), is an associate of CKA and therefore a connected person of Fortune REIT. Accordingly, the Acquisition constitutes a connected party transaction of Fortune REIT under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as calculated pursuant to Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempted from the independent unitholders' approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

Having taken account of the duties of the Manager under the REIT Code and the Trust Deed, the Board (including the Independent Non-executive Directors, but with Dr. Chiu Kwok Hung, Justin, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald voluntarily abstaining) is satisfied that the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition, the basis for determining the Consideration and the assignment of the Occupation Agreements and the Season Parking Contracts) are: (i) carried out at arm's length, on normal commercial terms, on terms that are fair and reasonable and in the best interest of Fortune REIT and the Unitholders; and (ii) in the ordinary and usual course of business of Fortune REIT; and (iii) permitted under the Trust Deed, consistent with Fortune REIT's investment objectives and strategy and in compliance with the REIT Code, the Listing Rules and the Trust Deed. The Board is satisfied, and (based on and in sole reliance on the opinion of the Board and the Audit Committee (in respect of the terms of the connected party transaction) and the information in this announcement and confirmations provided by the Manager (and having taken into account its duties under the REIT Code and the Trust Deed)) the Trustee is also satisfied, that no Unitholders' approval is required under the REIT Code and the Trust Deed for the Purchaser to enter into the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the assignment of the Occupation Agreements and the Season Parking Contracts).

Completion of the Acquisition will take place on the Completion Date, which is the date falling eight (8) weeks from the date of the Sale and Purchase Agreement (or such other date as the parties may mutually agree in writing). Upon Completion, Fortune REIT will (through its SPVs) become the sole owner of the Target Property.

This announcement is made pursuant to 10.3, 10.4(ga) and 10.5A of the REIT Code. The Manager will make a further announcement upon Completion.

Completion may or may not take place. Unitholders and potential investors of Fortune REIT are reminded to exercise caution when dealing in the Units.

A. OVERVIEW

On 5 August 2022, the Purchaser (being an indirect wholly-owned SPV of Fortune REIT) entered into the Sale and Purchase Agreement with the Vendor to purchase the leasehold interest in the Target Property (together with the Plant and Equipment) for a cash consideration (exclusive of GST) of SGD88 million (equivalent to approximately HKD501 million). Completion of the Acquisition will take place on the Completion Date (being the date falling eight (8) weeks from the date of the Sale and Purchase Agreement (or such other date as the parties may mutually agree in writing)). Upon Completion, Fortune REIT will (through its SPVs) become the sole owner of the Target Property.

The Target Property forms part of the Development known as "Stars of Kovan" located at 988 Upper Serangoon Road, Singapore 534733. The Target Property consists of 36 retail strata lots and one public car park strata lot.

The Target Property is sold by the Vendor subject to and with the rights, benefits and covenants of the Occupation Agreements and the Season Parking Contracts, which will be assigned to the Purchaser on Completion but is otherwise free from encumbrances.

More information on the terms and conditions of the Acquisition and information on the Target Property are set out in the sections headed “B. The Sale and Purchase Agreement” and “C. The Target Property” below.

B. THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarised as follows:

Date:	5 August 2022
Parties:	(a) SOK Investment Pte. Limited (as the Purchaser); and (b) Kovan Treasure Pte. Ltd. (as the Vendor).
Subject-matter of the Acquisition:	The Vendor agreed to sell and the Purchaser agreed to purchase the Target Property (together with the Plant and Equipment) on an en-bloc and “as is where is” basis as at the date of the Sale and Purchase Agreement, subject to fair wear and tear.
Consideration and payment:	The Consideration (exclusive of GST) for the Target Property (together with the Plant and Equipment) is SGD88 million. The Consideration shall be paid by the Purchaser to the Vendor and/or other party(ies) as the Vendor directs in cash in full on Completion. The Appraised Property Value of the Target Property was SGD95 million as at 30 June 2022. The Consideration represents a 7.4% discount from the Appraised Property Value.
Occupation Agreements and Season Parking Contracts:	<p>The Target Property is sold subject to and with the rights, benefits and covenants of the Occupation Agreements and the Season Parking Contracts.</p> <p>On Completion, the Vendor shall deliver to the Purchaser the executed Deed of Assignment of Occupation Agreements and Deed of Assignment of Season Parking Contracts, pursuant to which all the Vendor’s (i) rights, benefits (including Lease Revenues and Security Deposits) and covenants under the Occupation Agreements and (ii) rights, benefits (including Carpark Revenues) and covenants under the Season Parking Contracts, which are subsisting as at Completion will be assigned to the Purchaser.</p> <p>From the date of Completion, the Purchaser should observe and perform all obligations of the Vendor under or in connection with the assigned Occupation Agreements and the assigned Season Parking Contracts, and shall indemnify the Vendor for all relevant losses, damages and liabilities arising thereafter from the assigned Occupation Agreements and the assigned Season Parking Contracts.</p>

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the counterparties to the Occupation Agreements and the Season Parking Contracts which are subsisting as at the date of this announcement and their ultimate beneficial owners are third parties independent of Fortune REIT and its connected persons.

Apportionment of rents, profits and outgoings

The Vendor shall bear all Outgoings up to and excluding the date of Completion and shall be entitled to all Lease Revenues payable under the Occupation Agreements and Carpark Revenues payable under the Season Parking Contracts for the period up to and excluding the date of Completion. Commencing from (and including) the date of Completion, the Purchaser shall bear all Outgoings and shall be entitled to all Lease Revenues and Carpark Revenues.

The parties will prepare and finalise the completion accounts (computed up to the Completion Date) by no later than seven (7) Business Days prior to the Completion Date (or such other date as the parties may agree), and the Lease Revenues, Carpark Revenues and Outgoings will be apportioned in accordance with the principles as set out above.

Completion:

Completion shall take place on the Completion Date, which is the date falling eight (8) weeks from the date of the Sale and Purchase Agreement (or such other date as the parties may mutually agree in writing). The Manager will make a further announcement upon Completion.

Vendor's warranties and indemnities:

The Sale and Purchase Agreement contains warranties and indemnities by the Vendor which are customary for transactions of this nature and scale.

Termination:

The Purchaser shall be entitled to terminate the Sale and Purchase Agreement by written notice if, prior to Completion, it is found that there is any breach of (a) certain Vendor's warranties which are regarded as fundamental (e.g. title and capacity warranties); (b) the rest of the Vendor's warranties in any material respect and where such breach will have a material adverse effect on the Target Property taken as a whole; or (c) the Vendor's undertakings under the Sale and Purchase Agreement where such breach will have a material adverse effect on the Target Property taken as a whole.

In addition, the Purchaser shall be entitled to terminate the Sale and Purchase Agreement with immediate effect by written notice in respect of any of the events under items (a), (b), (c), (d) and (e) below, if at any time after the date of the Sale and Purchase Agreement:

- (a) the Government of Singapore or other competent governmental authority compulsorily acquires or gives notice of intended acquisition, in each case, affecting a material part of the Target Property, or the Vendor is aware of any such acquisition or intended acquisition;
- (b) an unsatisfactory legal requisition reply is received by the Purchaser or the Purchaser's solicitor from the relevant authority(ies) under certain specific conditions;
- (c) there is material damage to the Target Property or any part thereof;
- (d) any event or circumstance arises that prohibits or materially restricts the Acquisition pursuant to the REIT Code or the Listing Rules; or
- (e) the loan facilities to be taken up by the Purchaser for Completion of the Acquisition is not obtained and/or not in place and available for drawdown at Completion.

The Manager will make a further announcement if the Sale and Purchase Agreement is terminated as such.

Taxation:

GST

All GST payable in respect of the Consideration and all other moneys payable by the Purchaser under the Sale and Purchase Agreement if chargeable with GST (if any) shall be borne by the Purchaser.

Property tax

The Vendor shall pay for all property tax including surcharge, in respect of the period up to and excluding the date of Completion and the Purchaser shall pay for the same in respect of the period commencing from and including the date of Completion.

Stamp duty and fees

All stamp duty and registration fees (if any) payable on the Sale and Purchase Agreement and on any other document (including on any assignment) executed pursuant to the Sale and Purchase Agreement shall be borne by the Purchaser.

Governing law: The laws of Singapore.

C. THE TARGET PROPERTY

1. General description of the Target Property

The table below sets out certain key information regarding the Target Property:

General description: The Target Property forms part of the Development known as “Stars of Kovan” located at 988 Upper Serangoon Road, Singapore 534733. The Development was developed by the Vendor and completed in 2019 and comprises: (a) four (4) blocks of 17-storey apartments with a total of 390 condominium units; (b) five (5) strata landed houses; (c) 46 retail shop units; and (d) basement carparks.

The Target Property consists of 36 retail strata lots with a GRA of 22,638 sf. (representing approximately 84.7% of the total GRA of all the 46 retail strata lots at the Development which is the commercial component of the Development) and one public car park strata lot. The remaining parts of the Development which the Purchaser will not be acquiring will continue to be owned by their respective owners.

Appraised Property Value: The Principal Valuer has valued the Target Property at SGD95 million (equivalent to approximately HKD541 million) as at 30 June 2022.

Land tenure: 99 years leasehold, effective from 25 February 2015.

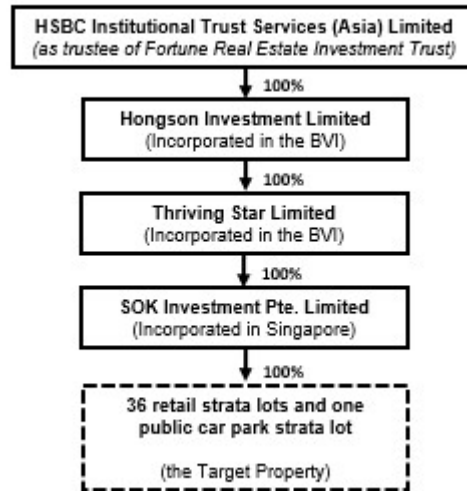
Tenancies, licences and other arrangements for occupation: The Target Property is sold by the Vendor subject to and with the benefits of the Occupation Agreements and all the rights, benefits and covenants under the Season Parking Contracts. As at 30 June 2022, the 36 retail strata lots are 100% occupied, generating an estimated net property yield of approximately 3.4% based on the Consideration. Based on the information provided by the Vendor, the net rental income generated from the Target Property for the financial year ended 31 December 2020 and 31 December 2021 after taking into account all related disbursements were about SGD0.6 million (equivalent to HKD3.6 million) and about SGD1.0 million (equivalent to HKD5.7 million) respectively before taxation, and about SGD0.6 million (equivalent to HKD3.6 million) and about SGD0.8 million (equivalent to HKD4.6 million) respectively after taxation.

The Occupiers under the existing Occupation Agreements are in the trades of education, beauty, medical, food and beverage, sports and retail, catering for the daily needs and convenience of nearby residents, which tallies with the positioning of the Target Property as part of a neighbourhood mall.

The term of the existing Occupation Agreements ranges from 1 to 5 years, with 47.7% of the agreements, by net rental, due to expire by the end of 2023.

2. Expected holding structure after Completion

Upon Completion, Fortune REIT will (through its SPVs) become the sole owner of the Target Property. Below is a simplified chart showing the holding structure of the Target Property immediately after Completion:



D. Fees and expenses

1. One-time fees and expenses in relation to the Acquisition

The Manager will be entitled under clause 15.2.1 of the Trust Deed to receive an acquisition fee of SGD880,000 (the “**Acquisition Fee**”), which is equal to 1% of the Consideration. The Acquisition Fee is payable out of the Deposited Property to the Manager in cash and/or units (as the Manager may elect) as soon as practicable after Completion.

Pursuant to clause 15.3.2 of the Trust Deed, the Trustee is entitled to receive additional fees for duties undertaken by the Trustee in connection with the Acquisition which are of an exceptional nature or otherwise outside the scope of the Trustee’s normal duties in the ordinary course of Fortune REIT’s day-to-day business operations. The Trustee has agreed with the Manager that it will charge a one-time additional fee of not more than HKD180,000 for duties undertaken by it in connection with the Acquisition, payable out of the Deposited Property (the “**Trustee Additional Fees**”).

Stamp duty equivalent to 3% of the Consideration or market value of the Target Property is payable by the Purchaser in connection with the Acquisition. All GST payable in respect of the Consideration and all other moneys payable by the Purchaser under the Sale and Purchase Agreement which are chargeable with GST (if any) shall be borne by the Purchaser.

The total one-time fees and expenses payable by Fortune REIT in relation to the Acquisition are expected to be SGD4 million (equivalent to approximately HKD23 million).

2. Ongoing fees and expenses

After Completion, in accordance with clause 15 of the Trust Deed:

- (i) the Manager will be entitled to receive management fees attributable to the Target Property (which will form part of the Deposited Property) comprising: (i) a base fee of not exceeding 0.3% per annum of the value of the Target Property; and (ii) a performance fee of 3% per annum of the net property income for each financial year attributable to the Target Property; and
- (ii) the Trustee will receive a remuneration attributable to the Target Property not exceeding 0.25% per annum of the value of the Target Property.

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

The Manager currently has no immediate plans to undertake major improvement works on the Target Property. Further, based on the information from the Vendor and the due diligence survey on the condition of the Target Property carried out by building consultants appointed by the Manager, other than normal and recurring maintenance in relation to the Target Property, the Manager does not expect any significant capital expenditure in respect of the Target Property in the immediate future.

E. Funding and financial impact of the Acquisition

The Consideration of SGD88 million (equivalent to approximately HKD501 million) and the one-time fees and expenses in relation to the Acquisition will be funded by internal resources and loan facilities.

Based on the consolidated financial position of Fortune REIT as at 30 June 2022 (as disclosed in the results announcement of Fortune REIT for the six months ended 30 June 2022), the gearing ratio of Fortune REIT is expected to increase from approximately 22.4% as at 30 June 2022 to approximately 23.4% upon Completion (assuming a drawdown of approximately SGD93 million (equivalent to approximately HKD528 million) from the loan facilities and including the Consideration for the Target Property).

The Acquisition is not expected to have any material adverse impact on the financial position of Fortune REIT as compared with that as at 30 June 2022 (as disclosed in the interim results announcement of Fortune REIT for the six months ended 30 June 2022).

F. Overview of Singapore as an investment market and relevant regulations in Singapore

1. The retail property market in Singapore

Singapore's economy has picked up from the trough since COVID-19 emerged in 2020. Based on advance estimates by the Ministry of Trade and Industry Singapore, the Singapore economy grew by 4.8% on a year-on-year basis in the second quarter of 2022, extending the 4% growth recorded in the previous quarter. In combating COVID-19, Singapore has one of the world's highest vaccination coverage. According to Singapore's Ministry of Health, 93% and 79% of Singapore's total population has been fully vaccinated and received booster shots respectively as at 25 July 2022.

To mitigate the economic impact caused by the pandemic, the Singapore government introduced several supplementary budgets and assistance schemes to support the economy, bolster private spending and preserve jobs. The Singapore government's commitment to economic re-opening, as evidenced by its continued adjustment of border measures and plans to allow workers to safely return to workplaces, would give continued support to its economic recovery.

Despite the impact of COVID-19 on retail sales, average retail occupancies have remained around 90% through 2020 and 2021, a very positive outcome for such a challenging period. Suburban shopping centres have performed particularly well during the period, with occupancy higher than it was in 2018, based on data from Singapore's Urban Redevelopment Authority. This reflects the important role of suburban shopping centres in the retail hierarchy, whereby they provide day-to-day and non-discretionary services. Conversely, Central Area shopping centres have been more negatively affected by lower footfall amid the tourism slump and work-from-home restrictions.

2. Overview of the relevant laws and regulations of Singapore relating to real estate

2.1 *Property ownership*

A company or foreign person may freely acquire, hold and dispose of non-residential property in Singapore.

Real estate in Singapore is divided into three broad categories, namely freehold land, i.e. estate in fee simple, leasehold land and land granted under the State Lands Act 1920 known as Statutory Land Grants for an estate in perpetuity.

In Singapore, the Government may acquire private land at any time for public development projects and landowners are compensated in return. Compensation is based broadly on the market value of the land at the time of notification by the State declaring that the land is required for specific purposes. The landowner is not entitled to appeal against the decision to acquire the land, but can appeal against the quantum of compensation awarded.

2.2 Land registry

Most land in Singapore is under the Torrens system. Registration with the Singapore Land Authority is essential for all land governed by the Torrens system. The effect of non-registration of an instrument in respect of land held under the Torrens system is that the estate or interest of the transferor or mortgagor will not pass to the transferee or mortgagee, as the case may be.

A person who is registered as proprietor of the land governed by the Torrens system will hold the land free from all encumbrances except such as may be registered or notified in the land register, but subject to a list of overriding interests (relating to, inter alia, subsisting conditions contained or implied in state title, any rights in favour of a public authority and statutory easements and the rights of any tenant in occupation of the land, when the proprietor became registered, under a tenancy which does not exceed seven years, including any option to renew) which need not be registered or notified in the land register.

2.3 Strata subdivided buildings

Where the property is a strata lot comprised within a strata-titled development, the owner of such strata lot, together with all the other owners of the strata lots in such development (collectively the “**subsidiary proprietors**”) shall form a body corporate known as a management corporation. The management corporation is responsible for the control, management and administration of the common property of the development for the benefit of all subsidiary proprietors, and in this connection has certain powers and duties conferred on it under the Building Maintenance and Strata Management Act 2004 (“**BMSMA**”). To fund its operations, the management corporation typically imposes levies on subsidiary proprietors by way of contributions to the management fund for purposes of the maintenance of the common property and other common expenses, and the sinking fund for purposes of anticipated major items of expenditure such as repainting, repairs to common property and other liabilities expected to be incurred at a future time. Each subsidiary proprietor shall also comply with the BMSMA and the by-laws of the management corporation (where applicable) with regard to the use and enjoyment of their respective strata lot and the common property of the development.

For mixed developments (e.g. residential and non-residential developments) where there is limited common property designated for the exclusive use by a specific group of subsidiary proprietors, it is possible to form one or more subsidiary management corporations, each comprising the respective subsidiary proprietors of such group.

2.4 Termination of lease

The parties to a lease may negotiate formal break or termination rights under the lease which can be mutual or available to one party only. In the absence of any contractual right to terminate the lease, in principle, a tenant will have no ability to bring the lease to an end prior to its contractual term. Nevertheless, the tenant may approach the landlord to negotiate a surrender of lease by paying a one-off fee to the landlord to bring the lease to an end prior to the expiry of its term.

Subject to the terms and conditions of the relevant lease, a landlord may terminate a lease in the event of a breach of covenant by the tenant, subject to the terms of the relevant lease and the applicable laws.

2.5 Tenant's protection in respect of renewal

The parties to a commercial or business lease in Singapore may agree to include a right for a renewal lease at the end of the original term of years granted by the initial lease.

If there is no option for a renewal lease included in the original lease, the landlord is not obliged to renew the lease and the lease will expire at the end of its term.

3. Taxation matters

The prevailing corporate income tax ("CIT") rate in Singapore is currently 17%. Dividend payments made by the Singapore company (provided that it is a tax resident of Singapore) should be regarded as one-tier tax exempt dividend and accordingly exempt from Singapore CIT in the hands of its shareholder(s). There is no withholding tax and GST implications in Singapore on dividend distributions.

G. Reasons for and benefits of the Acquisition

The Acquisition is Fortune REIT's first acquisition outside Hong Kong and is in line with the current investment strategy of Fortune REIT to invest in yield-accretive and income producing real estate which has potential for long-term growth. It contributes to the geographical diversification of Fortune REIT's existing portfolio. Upon Completion, the Target Property will be held as a long-term investment and will expand Fortune REIT's footprint to cover the Singapore market and drive portfolio growth. The Manager believes that the key benefits of the Acquisition are as follows:

1. Portfolio diversification to drive sustainable growth

Real estate is sensitive to the supply and demand in the local market and certain local markets may be affected by volatility which may not be experienced elsewhere. A portfolio diversification strategy will provide Fortune REIT with greater ability to achieve sustainable income and capital value growth for Unitholders. A diversified portfolio can also benefit from the different growth rates of different markets and at the same time, market risks are spread out and minimised if the portfolio (being an illiquid investment such as real estate) is exposed to different economic cycles. In addition, the ability to capture investment opportunities in other economies outside Hong Kong, such as Singapore, will also provide Fortune REIT with additional growth potential.

2. Singapore has a highly transparent and liquid real estate market which is suitable for Fortune REIT's initial overseas investment outside Hong Kong

According to the JLL Global Real Estate Transparency Index in 2022, Singapore is ranked 14th, being the second highest ranked market in Asia, following Japan (ranked 12th) and two positions ahead of Hong Kong (ranked 16th) due to its information transparency, robust and measurable returns and benchmarks, strong legal, regulatory and tax frameworks. As the Acquisition is Fortune REIT's initial overseas investment outside Hong Kong, the Manager is of the view that transparent market is a key foundation which allows Fortune REIT, as an investor and operator, to efficiently make decisions with confidence.

3. The Singapore suburban retail market offers strong resilience and hence the risk profile of Fortune REIT can be maintained

Suburban retail properties in Singapore have demonstrated strong resilience especially since the COVID-19 outbreak in 2020. Average occupancies of the Singapore suburban retail subsector remained above 90% since 2020. With the Target Property having a similar risk profile as Fortune REIT's existing portfolio, the Acquisition is suitable for Fortune REIT's first overseas investment.

4. High occupancy with stable income contribution from non-discretionary trades

The Target Property had a 100% occupancy as at 30 June 2022, with more than 90% of its rental income contributing from non-discretionary trade sectors such as food and beverage, medical, education and beauty. The high occupancy and resilient trade mix are expected to provide Fortune REIT with a stable cash flow.

5. ARA's strong presence in Singapore would render local support

ARA Asset Management Limited (“ARA”) has a strong track record for the investment and management of multiple real estate asset classes including retail, office, industrial and convention centre in Singapore. The Manager, as a wholly-owned subsidiary of ARA, would be able to tap on ARA's local expertise and experience.

H. Key risks relating to the Singapore property market and the Acquisition

1. Risks relating to the Singapore property market

There are risks involved in investing in the Singapore property market. Such risks included exchange rate risk, changes to property returns and valuations, insurance, political risk, such as a possible decrease in credit rating of Singapore and/or changes in policies resulting in increased foreign investment controls, expropriation of assets and/or restriction in repatriation of profits, changes in Singapore taxation and property laws, and laws relevant to the rights of foreign investors and the entities through which they hold their investments in Singapore.

Changes to the macro and micro economic environment directly impacts on property values, particularly any movements within the money markets and/or the number of competing schemes. In particular, any interest rate movements beyond those currently anticipated by the wider market may have a detrimental impact on the underlying value of properties. Monetary and other economic policy changes in Singapore from time to time may also affect its property market.

In the meantime, the recent outbreak of the global COVID-19 pandemic may result in prolonged measures to contain the spread of the COVID-19, such as regulatory lock-down, quarantine of people, suspension of operation or delayed resumption of work and production and global travel restrictions imposed by Singapore and/or other countries.

2. Risks relating to the Acquisition

The Acquisition of the Target Property, which consists of 36 retail strata lots and one public car park strata lot located in suburban Singapore, is Fortune REIT's first acquisition outside of Hong Kong. As Fortune REIT does not have extensive operating history or experience in managing commercial properties outside Hong Kong, there can be no assurance as to performance of the Target Property after Completion. The experience, skill set and expertise of the Manager in managing commercial properties may not be directly applicable to managing commercial properties outside Hong Kong such as the Target Property.

Although the Manager intends to mitigate such risk by delegating the property management services to a competent local property manager, given the differences in economic conditions and local property market conditions between Hong Kong and Singapore, there is no assurance that the Manager will be successful in managing the Target Property.

Having taken into account the above risks in relation to investing in the Singapore property market and the Acquisition, and the relative size of the Target Property, the Manager does not expect the Acquisition to result in a material change to overall risk profile of Fortune REIT.

I. Opinion of the Board

Having taken account of the duties of the Manager under the REIT Code and the Trust Deed, the Board (including the Independent Non-executive Directors, but with Dr. Chiu Kwok Hung, Justin, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald voluntarily abstaining) is satisfied that the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition, the basis for determining the Consideration and the assignment of the Occupation Agreements and the Season Parking Contracts) are: (i) carried out at arm's length, on normal commercial terms, on terms that are fair and reasonable and in the best interest of Fortune REIT and the Unitholders; (ii) in the ordinary and usual course of business of Fortune REIT; and (iii) permitted under the Trust Deed, consistent with Fortune REIT's investment objectives and strategy and in compliance with the REIT Code, the Listing Rules and the Trust Deed. The Board is satisfied that no Unitholders' approval is required under the REIT Code and the Trust Deed for the Purchaser to enter into the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the assignment of the Occupation Agreements and the Season Parking Contracts). The Audit Committee has reviewed the terms of the connected party transaction relating to the Acquisition.

J. Confirmation by the Manager

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Target Property and the Plant and Equipment, and no material irregularities or non-compliance issues have been noted. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code, the Practice Note on Overseas Investment by SFC-authorized REITs contained in the REIT Code and the Manager's compliance manual.

The Manager confirms that, in relation to the Acquisition, the Practice Note on Overseas Investment by SFC-authorized REITs contained in the REIT Code has been complied with. The Manager also confirms that it has the requisite competence, experience and effective internal controls and risk management system for investing in and managing the Target Property, notwithstanding its location in Singapore, having regard to (among other things) the nature of the Target Property and the provision of property management services by local property manager (being a professional property management company experienced in managing property located in Singapore). In addition to the expertise and track record, in assessing the local property manager, the Manager will also pay attention to: (a) whether the local property manager has acquired sufficient insurance (including professional and liability insurance); and (b) possible means of recourse against the local property manager in cases of its substandard performance or misconduct. Day-to-day management and operation of the Target Property will be delegated to the local property manager, with the Manager retaining oversight of the local property manager through implementing appropriate controls such as, periodic reporting.

Based on the due diligence conducted by the Manager and its legal advisors as to the laws of Singapore, the Manager is satisfied that the Vendor is the registered legal and beneficial owner of the Target Property and Fortune REIT will (through its SPVs) hold good, marketable legal and beneficial title in the Target Property immediately upon Completion, and be able to sell the Target Property. There are no major issues identified by the building consultants.

K. Opinion of the Trustee

Based on and in sole reliance on the opinion of the Board and the Audit Committee (in respect of the terms of the connected party transaction) and the information in this announcement and confirmations provided by the Manager (and having taken into account its duties under the REIT Code and the Trust Deed), the Trustee is satisfied that: (a) the Acquisition is permitted under the Trust Deed, consistent with Fortune REIT's investment policy and strategy and in compliance with the REIT Code, the Listing Rules and the Trust Deed; (b) the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Unitholders as a whole; and (c) no Unitholders' approval is required under the REIT Code and the Trust Deed for Fortune REIT to enter into the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the assignment of the Occupation Agreements and the Season Parking Contracts). Accordingly, and on the same basis, the Trustee has no objection to the Acquisition and the Purchaser entering into the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the assignment of the Occupation Agreements and the Season Parking Contracts).

L. Regulatory implications

So far as the Manager is aware having made all reasonable enquiries, as at the date of this announcement, Focus Eagle held 413,074,684 Units and Ballston Profits held 112,556,000 Units, collectively representing approximately 26.51% of the Units in issue. As Focus Eagle and Ballston Profits are both indirect wholly-owned subsidiaries of CKA, CKA is a substantial Unitholder and a connected person of Fortune REIT. The Vendor, being an indirect wholly-owned subsidiary of CKA, is an associate of CKA and therefore a connected person of Fortune REIT. Accordingly, the Acquisition constitutes a connected party transaction of Fortune REIT under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as calculated pursuant to Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempted from the independent unitholders' approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules. None of the Directors have any material interest in the Acquisition except by virtue of being an executive director of CKA or the executive committee members of CKA and no Directors were required to abstain from voting on the resolutions of the Board approving the Acquisition. Dr. Chiu Kwok Hung, Justin, being an Executive Director of CKA, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald, both being Executive Committee Members of CKA, voluntarily abstained from voting on the resolutions of the Board approving the Acquisition.

Submission with regard to 7.5(b) of the REIT Code

Under 7.5(b) of the REIT Code, a REIT may hold real estate through SPVs provided that, among other things, the SPVs are incorporated in jurisdictions which have established laws and corporate governance standards which are commensurate with those observed by companies incorporated in Hong Kong. The Manager has made a submission in respect of 7.5(b) of the REIT Code that SPVs incorporated under the laws of Singapore have commensurate investor protections as companies incorporated in Hong Kong.

M. General

1. About the Purchaser and Fortune REIT

The Purchaser is a company incorporated under the laws of Singapore and an indirect wholly-owned SPV of Fortune REIT. The Purchaser will solely be used to hold the Target Property and the Plant and Equipment upon Completion.

Fortune REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed, listed on the Main Board of the SEHK and authorised under section 104 of the SFO. Fortune REIT is principally engaged in the business of ownership of and investment in a portfolio of retail shopping malls located in Hong Kong (and Singapore following Completion) with the primary objective of producing stable distributions for Unitholders and to achieve long-term growth in the net asset per Unit. The Manager of Fortune REIT is ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of ESR Group Limited (“**ESR**”). ESR is APAC’s largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally. HSBC Institutional Trust Services (Asia) Limited is the trustee of Fortune REIT.

2. About the Vendor and CKA

According to the information provided by the Vendor, as at the date of this announcement, the Vendor is a company incorporated under the laws of Singapore and an indirect wholly-owned subsidiary of CKA. The principal business activity of the Vendor is property development of the Development, which was substantially completed on 7 November 2019.

CKA is a leading multinational corporation and has diverse capabilities with activities encompassing property development and investment, hotel and serviced suite operation, property and project management, pub operation and investment in infrastructure and utility asset operation. The shares of CKA are listed on the Main Board of the SEHK (Stock Code: 1113).

3. Further announcement

The Manager will make a further announcement upon Completion.

Completion may or may not take place. Unitholders and potential investors of Fortune REIT are reminded to exercise caution when dealing in the Units.

DEFINITIONS

In this announcement, the following definitions apply throughout unless otherwise stated.

<i>Acquisition</i>	The acquisition of the Target Property (together with the Plant and Equipment) by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement.
<i>Acquisition Fee</i>	Has the meaning as defined under the section headed “D. Fees and expenses” of this announcement.
<i>Appraised Property Value</i>	SGD95 million (equivalent to approximately HKD 541 million) as at 30 June 2022, as appraised by the Principal Valuer.
<i>Audit Committee</i>	The audit committee of the Manager.
<i>Ballston Profits</i>	Ballston Profits Limited, an indirect wholly-owned subsidiary of CKA.
<i>Board</i>	The board of Directors.
<i>Business Day</i>	A day on which commercial banks are open for business in Singapore and Hong Kong (excluding Saturdays, Sundays and public holidays).
<i>Carpark Revenues</i>	The charges payable by persons for the use of the car parks located at the Property, including hourly charges and/or pursuant to the Season Parking Contracts.
CCASS	The Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.
CKA	CK Asset Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the SEHK (Stock Code: 1113).
<i>Completion</i>	Completion of the Acquisition pursuant to the Sale and Purchase Agreement.
<i>Completion Date</i>	The date falling eight (8) weeks from the date of the Sale and Purchase Agreement (or such other date as the parties may mutually agree in writing).

connected person	Has the meaning ascribed to it under the REIT Code.
Consideration	SGD88 million (equivalent to approximately HKD501 million), being the purchase consideration payable by the Purchaser for the Target Property (together with the Plant and Equipment) pursuant to the terms of the Sale and Purchase Agreement (exclusive of GST).
Deed of Assignment of Occupation Agreements	The assignment to be executed by the Vendor in favour of the Purchaser on Completion, pursuant to which all the Vendor's rights, benefits (including Lease Revenues and Security Deposits) and covenants under the Occupation Agreements which are subsisting as at Completion will be assigned to the Purchaser.
Deed of Assignment of Season Parking Contracts	The assignment to be executed by the Vendor in favour of the Purchaser on Completion, pursuant to which all the Vendor's rights, benefits under the Season Parking Contracts (including Carpark Revenues) and covenants under the Season Parking Contracts which are subsisting as at Completion will be assigned to the Purchaser.
Deposited Property	All the assets of Fortune REIT including, from and after Completion, the Target Property.
Development	The development as a whole known as "Stars of Kovan" which comprises of: (a) 4 blocks of 17-storey apartments with 390 condominium units; (b) 5 strata landed houses; (c) 46 retail shop units; and (d) basement carparks located at 988 Upper Serangoon Road, Singapore 534733.
Directors	The directors of the Manager.
Focus Eagle	Focus Eagle Investments Limited, an indirect wholly-owned subsidiary of CKA.
Fortune REIT	Fortune Real Estate Investment Trust.
GRA	Gross Rentable Area.

<i>GST</i>	Goods and services tax charged under the Goods and Services Tax Act, 1993 of Singapore and subsidiary legislation gazetted pursuant thereto.
<i>HKD</i>	Hong Kong dollars, the lawful currency of Hong Kong.
<i>Hong Kong</i>	The Hong Kong Special Administrative Region of the People's Republic of China.
<i>Independent Director(s)</i>	<i>Non-executive</i> The independent non-executive director(s) of the Manager.
<i>Lease Revenues</i>	The rent, turnover rent, service charge and other moneys payable by the Occupiers from time to time pursuant to the Occupation Agreements.
<i>Listing Rules</i>	The Rules Governing the Listing of Securities on the SEHK, as amended, supplemented or modified from time to time (modified as appropriate pursuant to 2.26 of the REIT Code).
<i>Manager</i>	ARA Asset Management (Fortune) Limited, in its capacity as manager of Fortune REIT.
<i>Occupation Agreements</i>	The tenancies, licenses and all other arrangements which the Vendor has entered into with any party whereby the Vendor has granted rights over or has parted with possession of any part of the Target Property (a) which are subsisting as at the date of the Sale and Purchase Agreement; or (b) after the date of the Sale and Purchase Agreement and before Completion.
<i>Occupier</i>	Any person to whom any Occupation Agreement is granted and/or with whom any Occupation Agreement is entered into.

Outgoings

In respect of the Target Property:

- (a) rates and taxes (other than income tax, capital gains tax and GST), including but not limited to all rent, fees, charges, assessments, duties and levies assessed or charged by government authorities in relation to the Target Property;
- (b) all costs, charges and other operating expenses associated with the operation of the Target Property; and
- (c) maintenance fees, sinking contributions and any other payments and contributions levied by the management corporation and/or subsidiary management corporation in respect of the Target Property.

Plant and Equipment

All plant and equipment affixed to the Target Property which is owned by the Vendor (excluding those owned by any Occupiers and/or other occupiers at the Target Property) as listed out in the Sale and Purchase Agreement.

Principal Valuer

Colliers International (Hong Kong) Limited.

Purchaser

SOK Investment Pte. Limited, a company incorporated under the laws of Singapore and an indirect wholly-owned SPV of Fortune REIT.

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.

Sale and Purchase Agreement

The sale and purchase agreement dated 5 August 2022 entered into between the Vendor and the Purchaser, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase, the Target Property (together with the Plant and Equipment).

Season Parking Contracts

The contracts for season parking at the car park strata lot entered into by the Vendor with the relevant Occupiers.

<i>Security Deposits</i>	The cash security deposits paid to and received by the Vendor under the Occupation Agreements.
<i>SEHK</i>	The Stock Exchange of Hong Kong Limited.
<i>sf.</i>	Square feet.
<i>SFC</i>	The Securities and Futures Commission of Hong Kong.
<i>SFO</i>	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
<i>SGD</i>	Singapore dollars, the lawful currency of Singapore.
<i>Singapore</i>	The Republic of Singapore.
<i>SPV</i>	A special purpose vehicle.
<i>Target Property</i>	37 strata lots comprising 36 retail strata lots and one public car park strata lot located at the Development.
<i>Trust Deed</i>	The trust deed entered into between the HSBC Institutional Trust Services (Singapore) Limited and the Manager constituting Fortune REIT, dated 4 July 2003 and as amended, restated, supplemented or modified from time to time.
<i>Trustee</i>	HSBC Institutional Trust Services (Asia) Limited, in its capacity as trustee of Fortune REIT.
<i>Trustee Additional Fees</i>	Has the meaning as defined under the section headed “D. Fees and expenses” of this announcement.
<i>Unit</i>	One undivided unit in Fortune REIT.
<i>Unitholder(s)</i>	Any person(s) registered as holding Unit(s) and any person(s) holding Unit(s) through CCASS.

Vendor

Kovan Treasure Pte. Ltd., a company incorporated under the laws of Singapore and an indirect wholly-owned subsidiary of CKA.

%

Per cent or percentage.

For the purpose of this announcement and for illustrative purpose only, SGD is converted at the rate of SGD1 to HKD5.69. No representation is made that any amounts in SGD has been or could be converted at the above rate or at any other rate.

By order of the board of directors of
ARA Asset Management (Fortune) Limited
(in its capacity as manager of Fortune Real Estate Investment Trust)
Chiu Yu, Justina
Chief Executive Officer

Hong Kong, 5 August 2022

The Directors of the Manager as at the date of this announcement are Mr. Chui Sing Loi (alias Tsui Sing Loi) as Chairman and Independent Non-executive Director; Dr. Chiu Kwok Hung, Justin, Mr. Lim Hwee Chiang, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Chiu Yu, Justina as Executive Director; Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah as Independent Non-executive Directors.