CHARTWELL
CAPITAL

September 26, 2019

Tan Sri Dato' David Chiu
Chairman and CEO
16/F., Far East Consortium Building,
121 Des Voeux Road Central,
Hong Kong

Dear Tan Sri Dato' David Chiu,

Greetings! We hope this letter finds you and your company well. As shareholders in Far East Consortium ("FEC" or the "Company") since 2013, we are grateful for your regular and open communication with us throughout the years. In that spirit of openness we would like to raise management's awareness of several opportunities available to the Company.

First and foremost, we fully support the Company's "Asian Wallet" strategy of expanding and diversifying its property and hospitality exposure internationally to attract Asian home buyers and tourists. However, the Company's stock is under appreciated by investors, with a current NAV discount of 75 percent. We encourage the management to consider implementing the suggestions below to unlock the Company's full potential and further enhance shareholder value.

1. **<u>Reduce Casino Exposure to Focus on Property-related Expansion</u>**

    a. FEC has historically focused on property development, hospitality and car park operations. It has recently expanded to casino gaming. While we understand the Company's overall strategy, we believe that any involvement in casino gaming may deviate from the Company's main business model and management's core competence. We believe that this segment may also weaken investors' interest in FEC as a pure property play.

    b. Given the increasing importance of environment, social, and governance, casino involvement is likely to arouse investors' concerns in areas such as the Company's code of conduct for ethical and responsible business practices. Investors may, for instance, be concerned about the social impacts of pathological gambling and the Company's compliance reporting on data privacy, anti-money laundering and fraud prevention. The escalating cost and time required to monitor and report on this segment is likely to distract management from its focus and may conflict with the investment mandates of many institutional investors.

c. FEC's casino exposure accounts for 4 percent of its total revenue. We encourage the Company to divest this segment while it is still insignificant to prevent any future misalignment of interests with shareholders going forward.

2. **Enhance Share Buyback Program**

a. FEC's stock has been valued at a discount to NAV of 36 to 83 percent since 2010. During this period, the Company has bought back shares valued at HKD433 million (USD55.5 million). While we endorse the buyback program, it has not reduced FEC's NAV discount. Our observations suggest that the buyback strategy is too conservative.

b. With approximately HKD1.4 billion (USD180.0 million) cash profit generated in 2018, we welcome the Company's HKD200 million (USD25.6 million) share buyback program for fiscal year 2020. Yet, rather than spreading each buyback thinly, the Company could internally specify a NAV or market capitalization range, then execute sizable and timely buybacks to gain price momentum, market coverage and investors' interest.

c. For the last 5 years, FEC's stock has traded at an average NAV discount of 68 percent. Setting a minimum target of 68 percent, and possibly a lower discount, would be a good start. Maintaining a market capitalization of over HKD10 billion (USD1.3 billion) would also improve trading liquidity and attract institutional investors. This strategy would send a stronger signal to the market, showcasing the Company's buyback initiative and its commitment to enhancing shareholder value.

3. **Spin Off Hotel Assets as a REIT to Unlock Value**

a. The Company owns valuable assets, including hotels, commercial buildings and car parks, across the Asia-Pacific region, the U.K. and Europe. The majority are hotels, which are carried at a book value of HKD8.5 billion (USD1.1 billion) but valued at HKD26 billion (USD3.3 billion). Despite management's ongoing efforts to highlight the hidden value of FEC's significant hotel assets, they are not fully appreciated by investors. To unlock the value of these hidden assets, management should spin some of them off as a REIT. These assets would then be valued much higher than the current 75 percent discount to NAV.

b. By spinning off some of its assets as a REIT, FEC would be able to redeploy capital to property projects that generate higher returns. The restructuring would essentially create two vehicles for investors: a relatively asset light model for the parent company with higher growth prospects and returns for equity shareholders, and an asset rich REIT vehicle with a dedicated management team focusing on asset enhancement to grow an income stream for yield-focused investors.

c. We recommend listing such a REIT on the Singapore Stock Exchange. Singapore's REIT market is more developed than Hong Kong's. For example, Singapore has a better tax regime for REITs than Hong Kong. It currently has 43 REIT issuers, with a total market capitalization of USD79 billion, whereas Hong Kong has only 10, with a total market capitalization of USD37 billion. In terms of liquidity, Singapore-listed REITs have an effective trading velocity of 93 percent, compared with Hong Kong's 77 percent. To ensure sufficient trading liquidity to attract institutional investors, a minimum market capitalization of USD1.5 billion would be ideal.

We sincerely hope that the management will consider these proposals. By divesting its casino segment, the Company would present a more focused business model to investors. By implementing a more strategic share buyback program, the Company would send a stronger signal to the market and increase shareholder value. By listing its income generating assets as a REIT would unlock the Company's hidden value and make capital redeployment more efficient.

Should you have any questions about our proposals, please do not hesitate to contact us. Thank you for your attention!

Sincerely,

Ronald Chan

Ronald W. Chan
Chief Investment Officer
Chartwell Capital Limited