PROXY PAPER

FUTURE LAND DEVELOPMENT HOLDINGS LIMITED

GLASS LEWIS

Hong Kong Exchanges and Clearing: **1030**

ISIN: **KYG3701A1067**

MEETING DATE: 17 OCTOBER 2017

RECORD DATE: 04 OCTOBER 2017

PUBLISH DATE: 06 OCTOBER 2017

INDEX MEMBERSHIP: HANG SENG COMPOSITE

SECTOR: REAL ESTATE

INDUSTRY: REAL ESTATE MANAGEMENT AND DEVELOPMENT

COUNTRY OF TRADE: HONG KONG

COUNTRY OF INCORPORATION: CHINA

VOTING IMPEDIMENT: NONE

DISCLOSURES: NONE

COMPANY DESCRIPTION

Future Land Development Holdings Limited, an investment holding company, invests in, develops, and sells properties in the People's Republic of China. The company operates in two segments, A Share Company and Non-A Share Companies.

OWNERSHIP | ESG PROFILE | REMUNERATION | VOTE RESULTS | **APPENDIX** | COMPANY UPDATES

2017 COURT MEETING

PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Scheme of Arrangement (Going-Private Transaction)	FOR	**AGAINST**	• **Inadequate valuation for shareholders** • **Insufficient premium paid**

2017 EXTRAORDINARY GENERAL MEETING

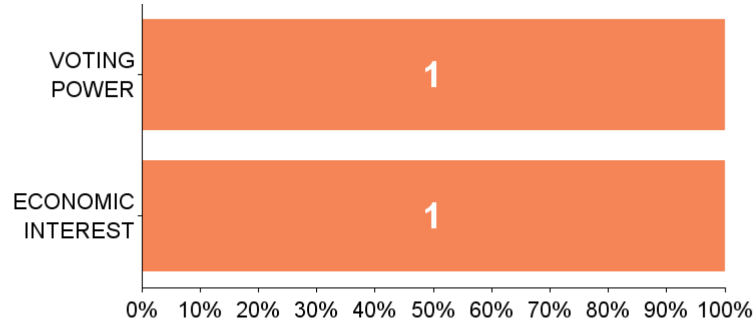
PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Approval of the Scheme and the Cancellation of the Scheme Shares	FOR	**AGAINST**	• **Not in favor of related transaction**
2.00	Approve Scheme-Related Formalities	FOR	**AGAINST**	• **Not in favor of related transaction**

SHARE OWNERSHIP PROFILE

SHARE BREAKDOWN

	1
SHARE CLASS	Ordinary Shares
SHARES OUTSTANDING	5,658.0 M
VOTES PER SHARE	1
INSIDE OWNERSHIP	73.10%
STRATEGIC OWNERS**	73.10%
FREE FLOAT	26.90%

SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 03-OCT-2017



TOP 20 SHAREHOLDERS

	HOLDER	OWNED*	COUNTRY	INVESTOR TYPE
1.	Wang, Zhenhua	72.56%	N/A	Individuals/Insiders
2.	The Vanguard Group, Inc.	0.96%	United States	Traditional Investment Manager
3.	Dimensional Fund Advisors L.P.	0.72%	United States	Traditional Investment Manager
4.	Lv, Xiaoping	0.21%	N/A	Individuals/Insiders
5.	BNY Mellon Asset Management	0.21%	United States	Traditional Investment Manager
6.	Acadian Asset Management, Inc.	0.13%	United States	Traditional Investment Manager
7.	UBS Asset Management	0.12%	Switzerland	Traditional Investment Manager
8.	Wang, Xiaosong	0.11%	N/A	Individuals/Insiders
9.	China Asset Management Co., Ltd.	0.11%	China	Hedge Fund Manager/CTA
10.	Lu, Zhongming	0.09%	N/A	Individuals/Insiders
11.	Liu, Yuanman	0.08%	N/A	Individuals/Insiders
12.	Russell Investment Management, LLC	0.07%	United States	Traditional Investment Manager
13.	BlackRock, Inc.	0.07%	United States	Traditional Investment Manager
14.	LocalTapiola Asset Management Ltd	0.07%	Finland	Traditional Investment Manager
15.	Grantham Mayo Van Otterloo & Co. LLC	0.06%	United States	Hedge Fund Manager/CTA
16.	Pacific Investment Management Company LLC	0.05%	United States	Hedge Fund Manager/CTA
17.	Numeric Investors LLC	0.04%	United States	Hedge Fund Manager/CTA
18.	Teachers Insurance and Annuity Association of America - College Retirement Equities Fund	0.02%	United States	Traditional Investment Manager
19.	ABN AMRO Investment Solutions	0.02%	France	Traditional Investment Manager
20.	AXA Investment Managers S.A.	0.01%	France	Traditional Investment Manager

**COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 03-OCT-2017*
***CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.*

SHAREHOLDER RIGHTS

	MARKET THRESHOLD	COMPANY THRESHOLD[1]
VOTING POWER REQUIRED TO CALL A SPECIAL MEETING	N/A	5.0%
VOTING POWER REQUIRED TO ADD AGENDA ITEM	5.0%	5.0%

[1]*N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.*

1.00: SCHEME OF ARRANGEMENT (GOING-PRIVATE TRANSACTION)

AGAINST

SUMMARY

Future Land Development Holdings Limited ("FLDHL" or the "Company") and Wealth Zone Hong Kong Investments Limited (the "Offeror") have entered into a scheme of arrangement, pursuant to which the Offeror will acquire the remaining 27.4% equity stake in the Company that it does not already own in an all-cash deal valued at approximately HK$5.12 billion (US$655.80 million). The deal values the Company's entire issued ordinary share capital at approximately HK$18.67 billion (US$2.39 billion) and the Company's total enterprise value at HK$42.44 billion (US$5.43 billion).

The Company currently expects that the proposed transaction will become effective on November 1, 2017, assuming timely satisfaction of the requisite closing conditions.

TERMS OF THE SCHEME CONSIDERATION

Each outstanding FLDHL ordinary share held by minority shareholders (each such share being a "Scheme Share") will be converted into the right to receive HK$3.30 (US$0.42) in cash. The merger consideration represents a 17.4% premium over the Company's unaffected closing price of HK$2.81 (US$0.36) on July 7, 2017, being the last trading day before the initial announcement of the deal.

The following table summarizes the implied market premiums of the merger consideration relative to the volume weighted average prices ("VWAPs") of the Company's shares for various periods spanning the unaffected two-year period:

Reference Period	VWAP of Future Land Development Holdings Limited	Implied Market Premium
July 7, 2017	HK$2.84	16.1%
Unaffected 1-month period	HK$2.92	13.2%
Unaffected 3-month period	HK$2.64	25.2%
Unaffected 6-month period	HK$2.38	38.9%
Unaffected 1-year period	HK$2.09	58.2%
Unaffected 2-year period	HK$1.74	89.9%

INFORMATION REGARDING THE TRANSACTION PARTIES

The Company

FLDHL is an SEHK-listed firm incorporated in the Cayman Islands that primarily engages in the businesses of property development, property investment and property management in the PRC. The Company carries out its principal business through Future Land Holdings Co., Ltd. (the "A-share Listed Subsidiary"), a Shanghai Stock Exchange-listed firm and a 67.1%-owned subsidiary of the Company.

The Offeror

The Offeror is a BVI-incorporated entity that is beneficially owned by a discretionary trust set up by Mr. WANG Zhenhua ("Mr. Wang"), the executive chairman and controlling shareholder of the Company, in favor of his family members. Mr. Wang is the sole director of the Offeror.

FINANCING

The Offeror intends to finance the cash required for the proposed scheme from a combination of internal resources and a term loan facility to be provided by Huatei Financial Holdings (Hong Kong) Limited, the financial adviser to the Offeror.

RATIONALE OF THE BOARD AND THE OFFEROR

The Company's board and the Offeror provide the following reasons for and benefits of the proposed scheme:

- <u>Unsatisfactory share price performance:</u> Since its listing in 2012, the Company's share price has not been satisfactory. The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation in the market, and therefore on its business, and also on employee morale. The implementation of the scheme could eliminate this adverse impact.

- Low trading liquidity: The liquidity of the Company's shares has been at a low level for a long period of time. The average daily trading volume of the Company's shares for the 24-month period ending July 7, 2017 was approximately 6.88 million shares, representing only approximately 0.12% of the Company's issued shares at announcement. Such low trading liquidity could make it difficult for shareholders to execute substantial on-market disposals without adversely affecting the Company's share price.

- Attractive premium to unaffiliated shareholders: The scheme consideration (HK$3.30) represents a substantial premium to the Company's global offering price in November 2012 (HK$1.45), the Company's net asset value per share as of December 31, 2016 (RMB1.632 or HK$1.8770), and the Company's recent unaffected share prices.

- Standalone risks: Apart from the core property development business, since 2015 the Company has engaged in new business ventures (e.g., children's entertainment, cinema and smart storage businesses) with a view towards a measured degree of business diversification and to avoid risks associated with the uncertainty of the PRC property market. Such diversification is consistent with the practice of other PRC property developers. These businesses are still in early development stage to prove their long-term commercial viability, which may involve intensive capital investment and certain execution risks, hence affecting the Company's short-term growth profile and resulting in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's short-term financial performance.

- Burdens of existing multiple listings: The Company is the indirect controlling shareholder of the A-share Listed Subsidiary listed on the Shanghai Stock Exchange, while the Company's shares are listed on the SEHK and the Company's existing US$600 million of senior notes are listed on the SGX-ST. Compliance with rules and regulations in different jurisdictions have brought about considerable regulatory burden, additional administrative, human resources and listing related costs to the Company. The dual-level approval procedures, to some extent, affect the efficiency of the Company's decision-making process and hence the Company's competitiveness. If these costs and expenses are eliminated, more time and resources could be directed towards the Company's business operations.

VOTE REQUIRED

Court Meeting

The Company will first convene a Court Meeting, at which minority shareholders will be asked to vote on the scheme of arrangement between the Company and the Offeror. Approval of the proposed scheme requires the affirmative vote of:

- A majority in number of the holders of Scheme Shares representing at least 75% in value of the Scheme Shares held by the holders of Scheme Shares present and voting in person or by proxy at the court meeting; and

- At least 75% of the votes attached to the Scheme Shares held by Independent Shareholders (i.e., the Company's shareholders other than the Offeror and its concert parties) that are voted in person or by proxy at the court meeting.

Additionally, the proposed scheme is conditional upon no more than 10% of the total number of votes cast by Independent Shareholders present and voting in person or by proxy at the Court Meeting being voted against the resolution.

The Offeror and its concert parties will be required to abstain from voting their FLDHL shares, representing approximately 73.05% of the Company's issued ordinary share capital (72.56% held by the Offeror and 0.49% held by concert parties), at the Court Meeting.

Extraordinary General Meeting

Immediately following the Court Meeting, the Company will convene the Extraordinary General Meeting ("EGM", at which shareholders will be asked to vote on the following resolutions:

- Proposal 1: Approve: (i) the scheme of arrangement; and (ii) the cancellation of the Scheme Shares for the purposes of giving effect to the proposed scheme.

- Proposal 2: Authorize the board to do all such acts and things considered by them to be necessary or desirable in connection with the implementation of the scheme of arrangement, and approve certain other steps to carry out the proposed scheme.

Proposal 1 has been put forth as a special resolution and thus requires the affirmative vote of at least 75% of the votes cast by shareholders entitled to vote thereon.

Proposal 2 has been put forth as an ordinary resolution and thus requires the affirmative vote of a simple majority of the votes cast by shareholders entitled to vote thereon.

The Offeror has indicated that if the proposed scheme is approved at the Court Meeting, it will cast its FLDHL shares in favor of the resolutions at the EGM.

GLASS LEWIS RECOMMENDATION

To the best of our knowledge, the Company has not disclosed any substantive information regarding the process that the board followed to arrive at the proposed transaction. As such, we cannot comment in detail regarding the depth and thoroughness of the board's review process here. We do recognize that the board may be somewhat constrained in its ability to fully pursue strategic alternatives given that the Offeror/Mr. Wang has long been the controlling shareholder of the Company. Thus, any alternative transaction would almost assuredly need the support of the Offeror to proceed. Considering the foregoing, we accept that a pre-signing market check was likely an impractical option for the board to undertake here. We do note that the proposed scheme was at least reviewed by a separate committee comprising the Company's independent non-executive directors, which, in our experience, is consistent with typical market practice and a necessary measure here given the relationship of the parties involved.

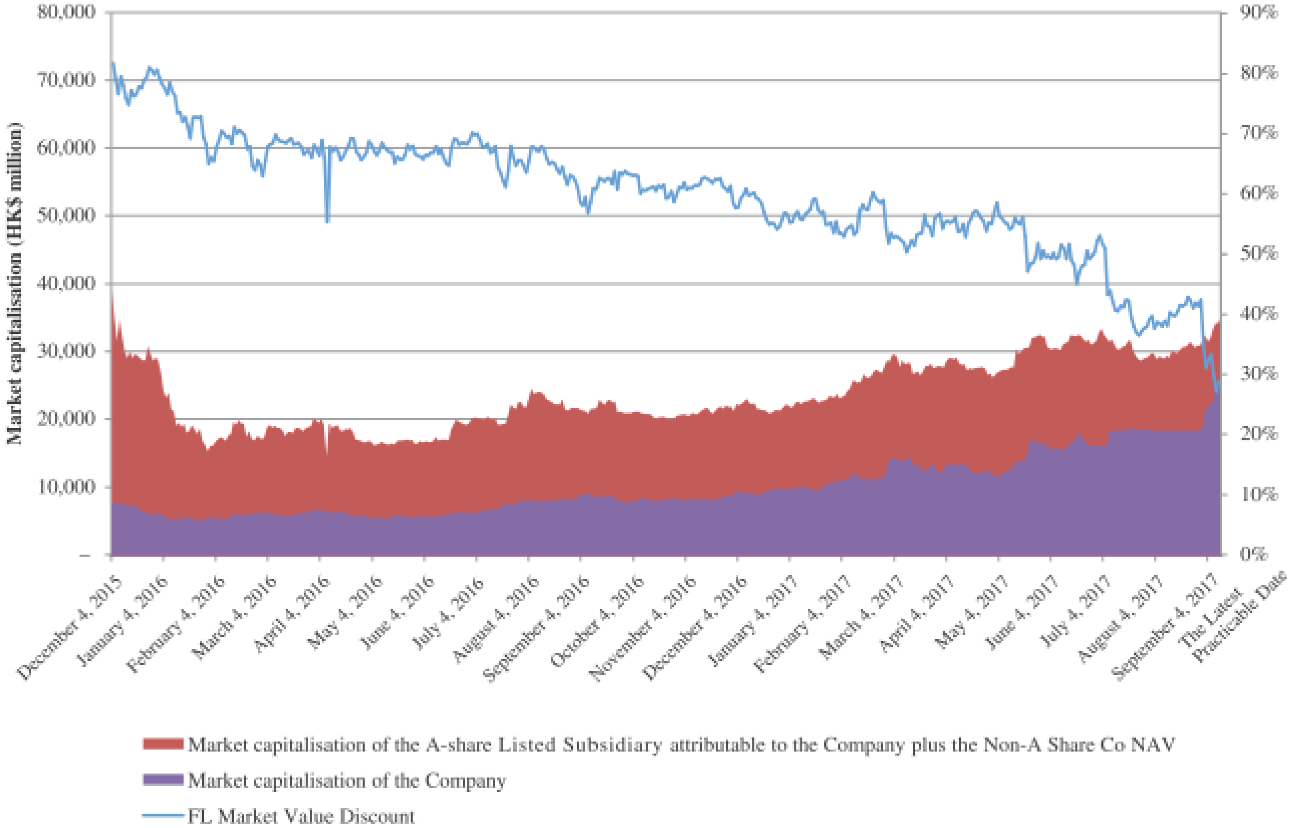
At first glance, and as the board and the Offeror have outlined, the proposed scheme offers some clear benefits to the Company's minority shareholders. Most notably, the scheme consideration would provide minority shareholders with an opportunity to exit their investment in the Company at a cash price that represents a fairly sizable premium to the Company's unaffected historical share trading prices. In fact, the scheme consideration represented an all-time high for the Company's shares as of the unaffected date.

Despite the abovementioned benefits, the recent merger arbitrage spread suggests to us that: (i) investors are not convinced that the proposed scheme represents the best alternative to maximize shareholder value at this time; and/or (ii) investors believe that the scheme consideration undervalues the Company. From September 11, 2017 to October 3, 2017 (representing around a three-week period), we note that the Company's share price has closed between 10.0% and 36.7% above the value of the scheme consideration, with an average daily arbitrage spread of 22.3%. As of October 3, 2017, the Company's closing share price remained more than 16% above the value of the scheme consideration.

While we could not identify any specific news or events that triggered the recent unusual market movement in the Company's share price, we suspect that such movement might be attributed to investors' views regarding the difference in the market value between the Company and the A-share Listed Subsidiary.

As a starting point, it bears highlighting that the Company is an investment holding company that does not have significant business operations other than its 67.1% equity interest in the A-share Listed Subsidiary. For each of the past three calendar years, the A-share Listed Subsidiary contributed around 99% of the Company's total annual revenue. Considering this relationship, one might reasonably expect that the shares of the Company (H shares) should trade at a similar valuation to the shares of the A-share Listed Subsidiary. However, Somerley Capital Limited ("Somerley"), being the independent financial adviser to the Company's independent board committee, points out that the share prices of A shares and H shares of the same company have generally diverged, as captured under the Hang Seng China AH Premium Index (the "AH Premium Index"), launched by the Hang Seng Indexes Company Limited ("HSIC"), that measures the weighted average premium (or discount) of the A share prices versus the H share prices of the 60 largest and most actively traded firms listed on both the SEHK and the PRC stock exchanges (such firms being the "A-H Companies") selected by HSIC. According to the HSIC, historically, the A share prices for A-H Companies have generally traded at a premium over the same company's H share prices, even though the A share and H share both represent the same company. As of October 3, 2017, the AH Premium Index was approximately 126.9, indicating that the A shares of the A-H Companies traded at a weighted average premium of approximately 26.9% over its H share price. Somerley suggests that the valuation divergence between the A shares and H shares of a given firm are due to differences in the market characteristics of the PRC and Hong Kong stock markets, including: (i) market environments; (ii) the background of investors in the respective regions; and (iii) the inconvertibility between A shares and H shares.

Somerley attempts to provide further context by conducting a review of (i) the market capitalization of the Company; and (ii) the market capitalization of the A-share Listed Subsidiary attributable to the Company plus the book value of the Company's other assets and liabilities (excluding the A-share Listed Subsidiary's net assets) (the "Non-A Share Co NAV") during the period from December 4, 2015 (being the first trading day of the A-share Listed Subsidiary) to September 19, 2017 (the "Discount Review Period").



Based on the chart above, Somerley finds that there has been a significant discount of the market capitalization of the Company to the market capitalization of the A-share Listed Subsidiary attributable to the Company plus the Non-Share Co NAV during the Discount Review Period (the "FL Market Value Discount"), with such discount ranging from approximately 26.6% and 80.6% (average and median discount of 58.9% and 60.0%, respectively). Somerley also notes that the FL Market Value Discount was still almost 50% during the period prior to the initial announcement of the proposed scheme and dropped significantly after the announcement of the deal to around 40%. Somerley attributes the recent decrease in the FL Market Value Discount to the announcement of the proposed scheme, whereby the Company's recent share prices have closely aligned with the value of the scheme consideration. Given the historically high levels of the FL Market Value Discount, Somerley believes that the current low level of the FL Market Value Discount may not be sustainable and may revert to its historical average if the proposed scheme is not completed.

While we acknowledge the point that Somerley is making regarding the FL Market Value Discount potentially reverting to the mean, one matter that we believe is important and goes largely unaddressed by Somerley is the fact that the FL Market Value Discount had clearly been narrowing and trending downward in the relevant unaffected period prior to the initial announcement of the proposed scheme. To the best of our knowledge, neither Somerley nor the independent board committee explain why they believe the Company's shares would not be able to maintain such a favorable trend on a standalone basis.

Somerley notes that the scheme consideration represents a 46.6% discount to the sum of the market value of the shares of the A-share Listed Subsidiary attributable to the Company as of September 19 2017 and the Non-A Share Co NAV as of June 30, 2017 (such sum being the "Market Price-related Value"). Somerley considers this implied discount to be acceptable because it falls within the range of discounts of H share prices to A share prices of the A-H Companies. However, Somerley does not disclose the specific range of discounts observed in the A-H Companies. Moreover, we note that the implied discount of the scheme consideration to the Market Price-related Value is actually steeper than the average and median discounts of the A-H Companies (29.6% and 30.1%, respectively).

Another point of contention we have is with the board's view that the Company's share price performance has "not been satisfactory" since its listing in 2012. Since the Company has not provided any information to support this assertion, we decided to conduct our own assessment by comparing the dividend-adjusted share price return (i.e., total shareholder return, or "TSR") of the Company to that of 17 SEHK-listed industry peers that were identified by Somerley as being most comparable to the Company:

TSR for periods ended July 7, 2017	One-Year	Two-Year	Three-Year	Since Dec. 4, 2015	Since Nov. 29, 2012
Peer Group					
Mean	53.9%	58.2%	50.5%	58.3%	95.1%
Median	52.7%	38.4%	37.0%	52.5%	79.6%
Range	(28)% to 176%	(29)% to 209%	(27)% to 226%	(30)% to 171%	(45)% to 278%
The Company					
Actual return	168.3%	190.7%	345.5%	111.1%	172.2%
Percentile rank vs. Peer Group	99th	97th	Above	79th	78th

For each of the selected unaffected timeframes, we find that the Company's TSR has ranked within or above the upper quartile of the Peer Group, which suggests that the Company has largely outperformed most of its closest industry peers. Thus, we believe that the board's claim that the Company's share price performance has been unsatisfactory is unsubstantiated.

From a valuation standpoint, we note the following key takeaways from Somerley's comparable companies analysis:

- The implied price-to-LTM earnings multiple of the proposed scheme (13.0x, as calculated by Somerley) exceeds the mean and median trailing earnings multiples observed in the peer group (10.7x and 9.1x, respectively) (range of 4.8x to 34.1x); and

- The implied price-to-book value multiple of the proposed scheme (1.7x, as calculated by Somerley) falls at the high end of the range of book value multiples observed in the peer group (0.3x to 1.7x).

Although these findings may suggest that the proposed scheme represents a relatively favorable valuation for the Company's shares, we find the relative valuation of the scheme is fairly consistent with the Company's standalone trading valuation over recent unaffected periods. In particular, for the one-year period ended July 7, 2017, we find that the Company's average price-to-LTM normalized EPS multiple (9.8x) exceeded the median normalized EPS multiple of its peers (8.1x), and the Company's average price-to-book value multiple (1.0x) ranked in the 85th percentile of its peers. This suggests to us that the Company's shares have generally been able to garner a relatively strong valuation on a standalone basis in the recent unaffected periods.

Somerley also conducted a precedent transactions analysis by reviewing a set of five completed privatization proposals involving property firms. We note the following key takeaways from this analysis:

- The implied one-day market premium of the proposed scheme (17.4%) falls below the mean and median premiums observed in the transaction set (22.1% and 25.4%, respectively);

- The implied 30-day average market premium of the proposed scheme (19.1%) falls below the range of premiums observed in the transaction set (24.1% to 51.8%); and

- The implied premium of the scheme consideration to the Company's reassessed NAV (17.0%) exceeds the mean and median adjusted NAV premiums observed in the transaction set (0.4% and -10.8%, respectively) (overall range of -29.4% to 40.0%).

Given that the Company's primary business relates to property, we recognize that an analysis of adjusted NAV premiums/discounts may serve as the more important benchmark in terms of assessing the fairness of the scheme consideration. At initial glance, we see that the scheme consideration represents a relatively low share price premium, but a relatively higher NAV premium. However, upon closer inspection, we find that the implied adjusted NAV premium of the proposed scheme falls below the implied adjusted NAV premiums observed in the two most recent transactions selected by Somerley that were announced in 2017 (28.6% and 40.0%). The implied NAV premium of the proposed scheme only compares favorably when viewed against the three older transactions, two of which date back to 2016 (implied adjusted NAV discounts of -10.8% and -29.4%) and the other one dating back to 2011 (implied adjusted NAV discount -26.2%). When conducting a precedent transactions analysis, we generally take the view that greater weight should be given to more recent deals, as such deals usually reflect current market conditions more closely than those dating further back. Considering our stance, we believe that shareholders should strongly question whether the implied adjusted NAV premium of the proposed scheme is truly as attractive as Somerley appears to suggest here.

CONCLUSION

We recognize that the scheme consideration represents a premium to the Company's recent unaffected share prices, and represented an all-time high for the Company's shares at announcement. Further, we believe that the board would likely have difficulty obtaining significant outside interest in a premium takeover of the Company, as any third-party offer would almost assuredly need to be conditioned on the approval of the Offeror given its existing controlling equity interest in the Company. The Company has also explicitly stated that the scheme consideration will not be increased, and that the Offeror does not reserve the right to do so. If the proposed scheme does not receive the requisite shareholder vote, the Offeror and its concert parties will generally be restricted under Hong Kong Takeovers Code from making another takeover offer for the Company during the subsequent 12-month period.

Despite the foregoing, we are not convinced that independent minority shareholders should support the proposed scheme at this time.

Over the past several years, the Company has recorded strong growth in annual revenue, operating income and diluted earnings per share (before extraordinary items), with such figures growing over the three-year period ended June 30, 2017 at compounded annual rates of approximately 15.3%, 16.1% and 7.4%, respectively. Although the Company is highly leveraged, with a debt-to-equity ratio of nearly 310%, the Company appears to us to be well-capitalized (working capital surplus of approximately RMB13.26 billion and a current ratio of 1.13x), and we find that most of the other key short-term liquidity and long-term solvency ratios of the Company are in line with those of its industry peers, on balance. Thus, we believe that the Company is in a relatively reasonable financial position to continue as a standalone, publicly-traded firm.

We also believe that the Company's share price had been exhibiting positive momentum in the periods prior to the announcement of the proposed scheme, as evidenced by the Company's strong TSR performance relative to its peers over select unaffected periods, as well as the long-term narrowing of the FL Market Value Discount. In our view, the proposed scheme would effectively cap these positive trends at an implied market premium and adjusted NAV premium that are less than those observed in the most recent comparable deals.

Finally, we observe that for the past three weeks, the Company's share price has traded well above the value of the scheme consideration, which suggests to us that investors strongly believe that the scheme consideration undervalues the Company's shares. In a more typical situation, this recent spread could be interpreted as the market's hope for a bump in the offer price. However, given the restriction on the Offerer's ability to make another offer for the Company in the near term, we believe the negative arbitrage spread supports the notion that the current proposal is less than optimal for unaffiliated shareholders of the Company and that its growth prospects remain strong.

Taking these considerations together in the aggregate, we believe that minority shareholders would not be well served supporting the proposed scheme at this time.

Accordingly, we recommend that shareholders vote **AGAINST** each of the resolutions to be put forth at the Court Meeting and the EGM.

NOTE: HK$1.00 = US$0.1280 and RMB1.00 = US$0.1470 (exchange rates as of July 10, 2017).

APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

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LEAD ANALYSTS

M&A and Contests:

Eric Dao