



**Fortune Real Estate Investment Trust
Financial Statements
for period from 1 January 2005 to 31 March 2005**

These figures have not been audited nor reviewed by our auditors.

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by the Trust Deed entered into on 4 July 2003 made between ARA Asset Management (Singapore) Limited as the Manager of Fortune REIT and HSBC Institutional Trust Services (Singapore) Limited as the Trustee of Fortune REIT. Fortune REIT was listed on the Singapore Exchange Securities Trading Limited on 12 August 2003.

Fortune REIT holds a portfolio of five retail malls spread across Kowloon and the New Territories, through the ownership of the five Property Companies' Shares, worth more than HK\$4 billion. The five retail malls are The Metropolis Mall, Ma On Shan Plaza, The Household Center, Smartland and Jubilee Court Shopping Centre, and they house a list of about 440 tenants from diverse trade sectors, including bank, real estate services, super market, food and beverage, healthcare products, service and education.

On 24 March 2005, Fortune REIT has also announced the proposed acquisitions of six Hong Kong retail properties, namely City One Shatin Property, Waldorf Garden Property, Tsing Yi Square Property, Centre de Laguna Property, Lido Garden Property and Rhine Garden Property. The acquisitions are expected to be completed in or around mid-2005.

1 (a) Income statement for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year

	HK\$ '000		%
	Actual 1/1/05 to 31/3/05	Actual 1/1/04 to 31/3/04	Increase/ (Decrease)
Revenue ^(a)	53,209	42,741	24.5%
Property income and licence fee top-up ^(b)	3,068	14,871	(79.4%)
Charge-out collections ^(c)	19,059	15,923	19.7%
Total Revenue	75,336	73,535	2.4%
Property management fees	(1,481)	(1,157)	28.0%
Other property operating expenses ^(d)	(16,070)	(16,175)	(0.6%)
Property Operating Expenses	(17,551)	(17,332)	1.3%
Net Property Income (before manager's performance fee)	57,785	56,203	2.8%
Manager's performance fee	(1,734)	(1,686)	2.8%
Net Property Income	56,051	54,517	2.8%
Borrowing costs ^(e)	(5,560)	(4,240)	31.1%
Profit Before Tax	50,491	50,277	0.4%
Hong Kong Taxation :			
Current taxation	(4,116)	(6,136)	(32.9%)
Deferred taxation	(4,673)	(2,647)	76.5%
Total Hong Kong Taxation	(8,789)	(8,783)	0.1%
Net Profit of Property Companies	41,702	41,494	0.5%
Manager's base fee	(3,095)	(2,535)	22.1%
Amortisation of negative goodwill ^(f)	-	786	NM
Foreign exchange (loss)/gain ^(g)	(141)	419	(133.7%)
Non-tax deductible trust expenses	(565)	(477)	18.4%
Tax deductible trust expenses	(203)	(506)	(59.9%)
Non tax-exempt income ^(h)	125	11	NM
Total Trust Expenses	(3,879)	(2,302)	68.5%
Net Profit of Trust	37,823	39,192	(3.5%)
Add / (less) :			
Manager's base fee	3,095	2,535	22.1%
Amortisation of negative goodwill ^(f)	-	(786)	NM
Foreign exchange loss/(gain) ^(g)	141	(419)	(133.7%)
Non-tax deductible trust expenses	565	477	18.4%
Non tax-exempt income	(125)	(11)	NM
Income Available For Distribution⁽ⁱ⁾	41,499	40,988	1.3%

Footnotes:

NM - Not meaningful

- (a) Revenue includes rental income, car park income, licence income, atrium income and others.
- (b) For the period from 1 January 2005 to 31 March 2005, the property income and licence fee top up amount was HK\$3.1 million (period from 1 January 2004 to 31 March 2004: HK\$14.9 million) payable by Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited to Vision Million Limited under the Rental Guarantee Deed dated 12 August 2003.
- (c) Charge-out collections consist of expenses related to the operation of the properties that are payable by tenants and licensees and these expenses include air conditioning charges, management fee, promotional charges, government rents, utility charges, cleaning charges and government rates.
- (d) The other property operating expenses include provision for doubtful debts written back of HK\$2,693 (provision for doubtful debts for the period from 1 January 2004 to 31 March 2004: HK\$553).
- (e) On 1 January 2005, Fortune REIT adopted FRS 39-Financial Instruments: Recognition and Measurement ("FRS 39"), which became effective on or after 1 January 2005. Please refer to Section 5 on the implications of changes in accounting policies.
- (f) FRS 103 – Business Combination ("FRS 103") has been effected for financial years beginning on or after 1 July 2004. FRS 103 requires, among others, negative goodwill to be recognised as income in the financial year the negative goodwill arises. For Fortune REIT, upon implementation of FRS 103, the outstanding negative goodwill arising from the acquisition of the Property Companies made before 1 January 2005 has been taken to accumulated profits as at 1 January 2005. Please refer to Section 5 on the implications of changes in accounting policies.
- (g) Foreign exchange (loss)/gain represent realised and unrealised foreign exchange differences. The unrealised exchange (loss)/gain arose from translation of monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at rates of exchange ruling at the balance sheet date. The realised exchange (loss)/gain arose mainly from the conversion of the foreign currency IPO proceeds to Hong Kong dollars at rates closely approximating those ruling at the transaction dates. All exchange differences are included in profit and loss statements.
- (h) Non tax-exempt income refers mainly to bank interest income less deductible expenses.
- (i) Fortune REIT is required to distribute 100.0% of its Tax-Exempt Income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses ("net Tax-Exempt Income"). Fortune REIT's distribution policy is to distribute its net Tax-Exempt Income to Unitholders on a semi-annual basis. There will not be any income distribution to Unitholders for the period from 1 January 2005 to 31 March 2005.
- (j) There are no investment income, write-off for stock obsolescence, impairment in value of investments, adjustments for under/over provision of tax in respect of prior years, profit on sale of investments, properties or plant and equipment, exceptional and extraordinary items during the financial period and the previous corresponding financial period.

1 (b)(i) Balance sheet, together with a comparative statement as at the end of the immediately preceding financial year

	Trust HK\$ '000		Group ^(a) HK\$ '000	
	Actual 31/3/05	Actual 31/12/04	Actual 31/3/05	Actual 31/12/04
Current Assets				
Cash and bank balances	57,276	58,175	115,502	103,622
Trade and other receivables	12	78,515	18,950	33,906
Total Current Assets	57,288	136,690	134,452	137,528
Non-Current Assets				
Investment in property companies	531,486	531,486	-	-
Loan to property companies ^(b)	1,557,799	1,557,799	-	-
Investment properties ^(c)	-	-	4,184,136	4,184,000
Fixed assets	-	-	27	31
Negative goodwill ^(d)	-	-	-	(134,410)
Total Non-Current Assets	2,089,285	2,089,285	4,184,163	4,049,621
Total Assets	2,146,573	2,225,975	4,318,615	4,187,149
Current Liabilities				
Trade and other payables ^(e)	842	4,614	71,007	66,295
Borrowings	-	-	41,000	26,000
Provision for taxation	32	19	9,682	5,566
Total Current Liabilities	874	4,633	121,689	97,861
Non-Current Liabilities				
Borrowings	-	-	900,000	900,000
Deferred tax liabilities	-	-	60,230	55,556
Total Non-Current Liabilities	-	-	960,230	955,556
Total Liabilities	874	4,633	1,081,919	1,053,417
Net Assets	2,145,699	2,221,342	3,236,696	3,133,732
Unitholders' Equity				
Issued equity	2,251,818	2,245,560	2,251,818	2,245,560
Unit issue costs ^(f)	(87,540)	(87,540)	(87,540)	(87,540)
Revaluation reserve	-	-	908,200	908,200
Hedging reserve	-	-	2,483	-
Revenue reserve	(18,579)	63,322	161,735	67,512
Total Unitholder's Equity	2,145,699	2,221,342	3,236,696	3,133,732

Footnotes:

- (a) The Group financial information incorporates the financial statements of the Trust and the 5 property companies.
- (b) The loans are in the process of being restructured into redeemable preference shares as equity instruments. When the restructuring formality is completed, the restructured preference shares will be classified as investment in property companies.
- (c) Investment properties are stated at valuation based on an independent professional valuation carried out by Chesterton Petty Ltd, the independent valuer, on 31 December 2004.
- (d) Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of properties companies at the date of acquisition over the cost of acquisition. Negative goodwill was amortised over the remaining average useful lives of the investment properties acquired from the property companies and taken to the profit and loss statement. Upon implementation of FRS 103, the outstanding negative goodwill of HK\$134.4 million as at 31 December 2004 has been taken to accumulated profits as at 1 January 2005. Please refer to Section 5 on the implications of changes in accounting policies.
- (e) This includes accrued Manager's base fee payable in units of HK\$Nil (31 December 2004 : HK\$3.2 million). Upon implementation of FRS 102 – Share Base Payment, Fortune REIT's accrual for the manager's base fee for the period from 1 January 2005 to 31 March 2005, which is payable in Units, is taken to equity. Please refer to Section 5 on the implications of changes in accounting policies.
- (f) Unit issue costs comprise listing and perusal fees, professional and other fees, underwriting and selling commission and miscellaneous expenses. It includes an amount of HK\$87.5 million paid as of 31 March 2005 (31 December 2004 : HK\$87.1 million) as well as accruals of HK\$Nil (31 December 2004: HK\$0.4 million).

1 (b)(ii) Aggregate amount of borrowings

As at 31/3/05	Secured	Unsecured ^(a)
	HK\$ '000	HK\$ '000
Amount repayable in one year or less, or on demand	-	41,000
Amount repayable after one year	-	900,000
	-	941,000

As at 31/12/04	Secured	Unsecured ^(a)
	HK\$ '000	HK\$ '000
Amount repayable in one year or less, or on demand	-	26,000
Amount repayable after one year	-	900,000
	-	926,000

Footnote:

- (a) Fortune REIT has in place an omnibus unsecured facility ("the Facility") of HK\$1,100 million comprising a HK\$900 million term loan facility and a HK\$200 million revolving credit facility, each for a term of five years. The Facility has been drawn down to HK\$941 million (31 December 2004: HK\$926 million) with the term loan facility fully drawn.

1 (c) Cash flow statement for financial period ended 31 March 2005

	HK\$ '000	HK\$ '000
	Actual 31/3/05	Actual 31/3/04
Operating Activities		
Profit before taxation	46,612	47,975
Adjustments for:		
Amortisation of negative goodwill	-	(786)
Depreciation	4	-
Base fee paid in units	3,095	2,535
Borrowing costs	5,560	4,240
Operating Profit before changes in working capital	55,271	53,964
Decrease in trade and other receivables	17,439	8,775
Increase in trade and other payables	7,876	1,706
Cash flow from operating activities	80,586	64,445
Investing Activities		
Acquisition of fixed assets	-	(27)
Upgrading of investment properties	(136)	-
Cash flow used in investing activities	(136)	(27)
Financing Activities		
Distribution paid	(78,010)	(58,893)
Drawdown/(repayment) of borrowings	15,000	(1,000)
Borrowing costs paid	(5,560)	(4,240)
Cash flow used in financing activities	(68,570)	(64,133)
Net increase in cash and cash equivalents	11,880	285
Cash and cash equivalents at beginning of the period	103,622	89,779
Cash and cash equivalents at end of the period	115,502	90,064

1 (d)(i) Statement of changes in unitholders' funds

	HK\$ '000			
	Trust		Group ^(a)	
	Actual 31/3/05	Actual 31/3/04	Actual 31/3/05	Actual 31/3/04
Balance as at beginning of period	2,221,342	2,202,267	3,133,732	2,317,144
Unrealised loss on revaluation of hedging instrument ^(b)	-	-	(11,902)	-
Unamortised negative goodwill taken to Unitholders' funds on adoption of FRS 103 ^(c)	-	-	134,410	-
Balance at beginning of period, as restated	2,221,342	2,202,267	3,256,240	2,317,144
Operations				
Net (loss)/profit	(3,891)	(3,088)	37,823	39,192
Fair value changes in hedging instrument	-	-	14,385	-
Revaluation reserve				
(Decrease)/increase in net assets resulting from operations	(3,891)	(3,088)	52,208	39,192
Unitholders' transactions				
Creation of units				
-management fee paid/payable in units ^(d)	6,258	2,563	6,258	2,563
Establishment and initial public offering expenses	-	548	-	548
Distribution to Unitholders	(78,010)	(58,893)	(78,010)	(58,893)
Net decrease in net assets resulting from Unitholders' transactions	(71,752)	(55,782)	(71,752)	(55,782)
Unitholders' funds as at end of period	2,145,699	2,143,397	3,236,696	2,300,554

Footnotes:

- (a) The Group financial information incorporates the financial statements of the Trust and the 5 property companies.
- (b) On 1 January 2005, Fortune REIT adopted FRS 39. Please refer to Section 5 on the implications of changes in accounting policies.
- (c) On 1 January 2005, Fortune REIT adopted FRS 103. Please refer to Section 5 on the implications of changes in accounting policies.
- (d) This represents 501,966 units issued and 460,047 units to be issued (31 March 2004 : 508,329 units issued) to the manager as payment of the Base Fee component of the Manager's management fee.

1 (d)(ii) Details of any changes in the units since the end of the previous period to 31 March 2005

<u>Date</u>	<u>Units Issued</u>	<u>Purpose</u>
As at 1 January 2005	475,168,809	Total units since the end of previous financial period
12 January 2005	501,966	As Payment of management fee for the period from 1 October 2004 to 31 December 2004
As at 31 March 2005	<u>475,670,775</u>	

Footnote:

(a) *There was an additional 460,047 units issued to the Manager on 6 April 2005 as payment of management fee for the period from 1 January 2005 to 31 March 2005.*

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Review Engagement 2400 (Engagements to Review Financial Statements), or an equivalent standard)

The figures have not been audited nor reviewed by the auditors.

3. Where the figures have been audited, or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited financial statements have been applied

The same accounting policies and methods of computation were followed during the current financial period as compared with those contained in the audited financial statements for the year ended 31 December 2004 except for the areas stated in item (5).

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The changes in accounting policies and methods of computation during the period as a result of accounting standards that became effective in 2005 are as follows:

(a) FRS 39 - Financial Instruments: Recognition and Measurement, which became effective on or after 1 January 2005. Fortune REIT adopted hedge accounting for its outstanding interest rate swaps. Hedge accounting allows fair value changes relating to the portion of the interest rate swaps where there is hedge effectiveness to be taken to equity. Fair value changes relating to the portion of the interest rate swaps where there is no hedge effectiveness will be taken to the profit and loss statement. As a result of implementation of FRS 39 on 1 January 2005, the Unitholders funds has been reduced by the effective portion of the unrealised loss arising from revaluation of the hedging instrument of HK\$11.9 million. The non-effective portion was not material as at 1 January 2005, hence the opening balance of accumulated profits as at 1 January 2005 was not adjusted.

In addition, in order to address the accounting implication under FRS 39 with regards to interest-free loans extended by Fortune REIT to the property companies, the Manager is in the process of restructuring these loans into redeemable preference shares as equity instruments. When the restructuring formality is completed, the restructured preference shares will be classified as investment in property companies. As a result, Fortune REIT has not applied the requirement under FRS 39 to impute an interest on these interest-free loans for the first quarter ended 31 March 2005.

(b) FRS 102 – Share Based Payment which became effective for the financial years beginning on or after 1 January 2005. Under FRS 102, Fortune REIT is required to account for the manager's base fee, which is payable in Units in equity instead of in current liability. As such, the accrued manager's base fee for the financial period ended 31 March 2005 has been reduced by HK\$3.1 million and equity has increased by the same amount as at 31 March 2005.

- (c) FRS 103 – Business Combination which became effective for the financial years beginning on or after 1 July 2004. FRS 103 requires, among others, negative goodwill to be recognised as income in the financial year the negative goodwill arises. For Fortune REIT, upon implementation of FRS 103, the outstanding negative goodwill arising from the acquisition of the Property Companies as at 31 December 2004 of HK\$134.4 million has been taken to accumulated profits as at 1 January 2005 and the accounting profit of Fortune REIT for the financial period ended 31 March 2005 has been reduced by approximately HK\$0.8 million arising from non-amortisation of this negative goodwill.

6. Earnings per unit and Distribution per unit for the financial period ended 31 March 2004

	Actual 1/1/05 to 31/3/05 HK cents	Actual 1/1/04 to 31/3/04 HK cents
Earnings per unit for the period based on the total number units in issue ^(a)	7.94	8.26
Distribution per unit for the period based on the total number units in issue ^(a)	8.72	8.64

Footnote:

- (a) The total number of units used for the computation of earnings and distribution rate is 476.1 million (31 March 2004 : 474.3 million) units. This comprises :
- (i) The number of units in issue as at 31 March 2005 of 475.7 million (31 March 2004 : 473.8 million) units; and
- (ii) The units payable to Manager on 6 April 2005 as base fee for the period from 1 January 2005 to 31 March 2005 of 0.4 million units (31 March 2004 : 0.5 million units for the period from 1 January 2004 to 31 March 2004).

7. Net asset value per unit based on issued units at the end of current period

	Actual 31/3/05 HK\$	Actual 31/12/04 HK\$
Net asset value per unit ^(a)	6.79	6.87

Footnotes:

- (a) Net asset value is calculated based on net assets of the Group excluding hedging reserve. The decrease was due to:-
- (i) income distribution for the second-half of year 2004 paid to Unitholders in February 2005; and
- (ii) increase in total number of Units in issue as a result of Units issued to Manager as base fee.
- (b) The total number of Units used for the computation of net asset value per Unit is 476.1 million (31 December 2004 : 475.7 million) Units.

8. Review of the performance

Income Statement (1Q 2005 vs 1Q 2004)

	HK\$ '000		%
	Actual 1/1/05 to 31/3/05	Actual 1/1/04 to 31/3/04	Increase/ (Decrease)
Total Revenue	75,336	73,535	2.4%
Property Operating Expenses	(17,551)	(17,332)	1.3%
Net Property Income (before manager's performance fee)	57,785	56,203	2.8%
Manager's performance fee	(1,734)	(1,686)	2.8%
Net Property Income	56,051	54,517	2.8%
Borrowing costs	(5,560)	(4,240)	31.1%
Profit Before Tax	50,491	50,277	0.4%
Total Hong Kong Taxation	(8,789)	(8,783)	0.1%
Net Profit of Property Companies	41,702	41,494	0.5%
Tax deductible trust expenses	(203)	(506)	(59.9%)
Income Available For Distribution	41,499	40,988	1.3%

	Actual 1/1/05 to 31/3/05	Actual 1/1/04 to 31/3/04	Increase / (Decrease) %
Yield before Hong Kong Taxation (annualised) (based on IPO price of HK\$4.75)	9.02%	8.86%	1.8%
Distribution Per Unit (HK cents)	8.72	8.64	0.9%
Tax-exempt distribution yield (annualised) (based on IPO price of HK\$4.75)	7.44%	7.30%	1.9%
Tax-exempt distribution yield (annualised) (based on closing price of HK\$6.65 as at 31/3/05 and HK\$5.20 as at 31/3/04 respectively)	5.32%	6.67%	(20.2%)

	Unit (million)		Increase / (Decrease) %
Number of units used for computation	476.1	474.3	0.4%
This comprises:			
(i) Units in issue at quarter end	475.7	473.8	0.4%
(ii) Units payable to manager as base fee for the first quarter	0.4	0.5	(20.0%)

Review of the performance for the period of 1 January 2005 to 31 March 2005

Total revenue for the first quarter ended 31 March 2005 was 2.4% above the same quarter last year and net property income rose by 2.8%. This was mainly due to the rising occupancy rate and the improved average passing rental of the overall portfolio. The occupancy rate of Fortune REIT's malls improved by 10.6% from first quarter last year to 94.1% as at 31 March 2005. The average passing rental was 11% higher compared to a year ago at the end of March 2004.

Property operating expenses increased marginally by 1.3% from the first quarter of 2004 with the cost-to-revenue ratio remaining low at 23% (excludes Manager's performance fee).

Borrowing costs were 32% higher than the first quarter of 2004 due to rising interest rate. The weighted average borrowing cost as at end of the first quarter 2005 was 2.37% p.a. compared to 1.74% p.a. for the first quarter of 2004.

As a result of the above, the income available for distribution for the first quarter ended 31 March 2005 increased by 1.3% from the same quarter last year.

Net asset value per unit as at 31 March 2005 was HK\$6.79 and the Unit price of HK\$6.65 at the end of March 2005 implies a discount of 2.1%.

9(a) Variance between the actual and the forecast results for the period from 1 January 2005 to 31 March 2005

Not applicable.

10. Commentary on the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

Hong Kong's economy continues to improve, with the unemployment rate now at a three year low of 6.1%. This could decline further as Disneyland opens in September this year. Economic growth is expected to moderate to around 4.7% in 2005 from the strong 8.1% pace in 2004. The retail industry is a major beneficiary of the economic strength, with retail sales rising 10.8% in 2004, and continuing the strong pace with a 9.6% increase in the first two months of the 2005 (over the same period last year).

Interest rates in Hong Kong continue to be volatile driven by speculation of the Reminbi and Hong Kong dollar's appreciation, whilst on the other hand following global rate hikes. An appreciation of the Hong Kong dollar would benefit Unitholders of Fortune REIT as it is denominated in Hong Kong dollars. However, short term rises in interest rate do affect Fortune REIT's income, though is mitigated by the fact that 50% of its debt has been fixed.

On the basis of the information available at present, the Manager does not expect the performance of Fortune REIT to be materially different in the next reporting period ending 30 June 2005.

Outlook for the financial year ending 31 December 2005

Based on the performance of the portfolio and the financials prepared for the first quarter 2005, the Manager of Fortune REIT expects the full year 2005 performance of the existing portfolio (without taking into consideration the proposed acquisition of the six new properties) to be in line with the 2004 performance, barring any unforeseen circumstances.

Footnote:

Source: Bloomberg and Consensus Economic Statistics

11. Distributions

(a) Current financial period

Any distribution declared for the current period? : Nil

(b) Corresponding period of the immediately preceding financial period

Any distribution declared for the corresponding period of the immediately preceding financial year? : Nil

Name of distribution : NA

Distribution Type : NA

Distribution Rate : NA

Par value of units : N.M

Tax Rate : NA

(c) Date Payable : NA.

(d) Book closure date : NA.

Footnotes:

NA - Not applicable

NM - Not meaningful

12. If no distribution has been declared/(recommended), a statement to that effect

No distribution has been declared/recommendeded for the current financial period from 1 January 2005 to 31 March 2005.

This release may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from other developments or companies, shifts in expected levels of occupancy rate, property rental income, charge out collections, changes in operating expenses, including employee wages, property expenses and governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. You are cautioned not to place undue reliance on these forward looking statements, which are based on current view of management on future events.

BY ORDER OF THE BOARD
ARA ASSET MANAGEMENT (SINGAPORE) LIMITED
AS MANAGER OF FORTUNE REAL ESTATE INVESTMENT TRUST

Lim Hwee Chiang
Director

10 May 2005