



**Fortune Real Estate Investment Trust  
Financial Statements  
for the financial year ended 31 December 2005**

These figures have not been audited but have been reviewed by our auditors.

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended by the Amending and Restating Deed dated 29 June 2005) 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. On 28 June 2005, Fortune REIT successfully closed an equity fund raising exercise by the placement of 318.8 million new units in Fortune REIT to partly finance the acquisition of 6 properties located in Hong Kong.

Fortune REIT now holds a portfolio of eleven retail malls in Hong Kong, spread across Kowloon and the New Territories, through the ownership of property companies ("the Property Companies"), worth approximately HK\$8.6 billion. The retail malls are City One Shatin Property, The Metropolis Mall, Ma On Shan Plaza, Waldorf Garden Property, The Household Center, Smartland, Jubilee Court Shopping Centre, Tsing Yi Square Property, Centre de Laguna Property, Lido Garden Property and Rhine Garden Property. Together they housed a total of 831 tenants as at 31 December 2005 from diverse trade sectors, including supermarkets, food and beverage outlets, bank and real estate services, and education providers. Tenants include Park 'N Shop, Maxim's Chinese Restaurant, Watson's, Fortress, McDonald's, Café de Coral, Bank of China (Hong Kong), DBS Bank, Standard Chartered Bank, Baleno, Bluestar Exchange, International Christian School Limited, and the Hong Kong Jockey Club.

Where appropriate, comparisons are made against the actual results of the same period last year as well as the forecast for the year ended 31 December 2005 stated in the Fortune REIT Circular to Unitholders dated 13 May 2005 ("the Forecast").

**Financial Statements Announcement**  
**For period from 1 January 2005 to 31 December 2005**

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

	HK\$ '000		%	HK\$ '000		%
	Actual 1/10/05 to 31/12/05	Actual 1/10/04 to 31/12/04		Increase/ (Decrease)	Actual 1/1/05 to 31/12/05	
<b>Revenue<sup>(a)</sup></b>	<b>117,167</b>	<b>50,664</b>	<b>131.3%</b>	<b>340,954</b>	<b>188,917</b>	<b>80.5%</b>
Property income and licence fee top-up <sup>(b)</sup>	3,693	13,935	(73.5%)	13,313	49,175	(72.9%)
Charge-out collections <sup>(c)</sup>	30,147	18,804	60.3%	98,638	70,117	40.7%
Property management fees	(3,344)	(1,410)	137.2%	(9,866)	(5,203)	89.6%
Other property operating expenses <sup>(d)</sup>	(35,718)	(26,174)	36.5%	(109,811)	(82,682)	32.8%
Property Operating Expenses	(39,062)	(27,584)	41.6%	(119,677)	(87,885)	36.2%
Net Property Income (before manager's performance fee)	111,945	55,819	100.5%	333,228	220,324	51.2%
Manager's performance fee	(3,359)	(1,675)	100.5%	(9,998)	(6,610)	51.3%
<b>Net Property Income</b>	<b>108,586</b>	<b>54,144</b>	<b>100.6%</b>	<b>323,230</b>	<b>213,714</b>	<b>51.2%</b>
Changes in fair value of properties <sup>(g)</sup>	799,295	-	100.0%	799,295	-	100.0%
Net Property Income before finance costs	907,881	54,144	1,576.8%	1,122,525	213,714	425.2%
Borrowing costs <sup>(e)</sup>	(25,467)	(5,232)	386.8%	(59,133)	(19,475)	203.6%
Profit Before Tax	882,414	48,912	1,704.1%	1,063,392	194,239	447.5%
Hong Kong Taxation :						
Current taxation	(9,480)	(3,744)	153.2%	(26,350)	(13,636)	93.2%
Deferred taxation	(5,096)	(4,791)	6.4%	(19,845)	(20,327)	(2.4%)
Total Hong Kong Taxation	(14,576)	(8,535)	70.8%	(46,195)	(33,963)	36.0%
Net Profit of Property Companies	867,838	40,377	2,049.3%	1,017,197	160,276	534.7%
Manager's base fee	(6,497)	(3,164)	105.3%	(18,688)	(10,796)	73.1%
Amortisation of negative goodwill <sup>(f)</sup>	-	795	NM	-	3,154	NM
Negative goodwill <sup>(f)</sup>	-	-	NM	141,169	-	NM
Foreign exchange (loss)/gain <sup>(h)</sup>	538	601	(10.5%)	(240)	830	(128.9%)
Non-tax deductible trust expenses	(2,181)	(535)	307.7%	(7,155)	(1,995)	258.6%
Tax deductible trust expenses	(243)	(164)	48.2%	(1,171)	(1,520)	(23.0%)
Non tax-exempt income <sup>(i)</sup>	521	65	701.5%	1,266	134	844.8%
Total Trust (Expenses)/Income	(7,862)	(2,402)	227.3%	115,181	(10,193)	(1,230.0%)
Net Profit of Group	859,976	37,975	2,164.6%	1,132,378	150,083	654.5%
Add / (less) :						
Manager's base fee	6,497	3,164	105.3%	18,688	10,796	73.1%
Amortisation of negative goodwill <sup>(f)</sup>	-	(795)	NM	-	(3,154)	NM
Negative goodwill <sup>(f)</sup>	-	-	NM	(141,169)	-	NM
Foreign exchange (loss)/gain <sup>(h)</sup>	(538)	(601)	(10.5%)	240	(830)	(128.9%)
Non-tax deductible trust expenses	2,181	535	307.7%	7,155	1,995	258.6%
Non tax-exempt income <sup>(i)</sup>	(521)	(65)	701.5%	(1,266)	(134)	844.8%
Changes in fair value of properties	(799,295)	-	100.0%	(799,295)	-	100.0%
<b>Income Available For Distribution</b>	<b>68,300</b>	<b>40,213</b>	<b>69.8%</b>	<b>216,731</b>	<b>158,756</b>	<b>36.5%</b>

**Footnotes:**

NM - Not meaningful

- (a) Revenue includes rental income, car park income, licence income, atrium income and others.
- (b) The property income and licence fee top up amount is 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 fees, promotional charges, government rents, utility charges, cleaning charges and government rates.
- (d) The other property operating expenses include provision for doubtful debts of HK\$41,001 and HK\$36,736 for the period 1 October 2005 to 31 December 2005 and 1 January 2005 to 31 December 2005 (provision for doubtful debts for the period 1 October 2004 to 31 December 2004 and 1 January 2004 to 31 December 2004 were HK\$7.2 million and HK\$7.2 million) respectively.
- (e) On 1 January 2005, Fortune REIT adopted FRS 39-Financial Instruments: Recognition and Measurement ("FRS 39"), which is effective for accounting periods beginning on or after 1 January 2005. Please refer to Section 5 on the implications of changes in accounting policies.
- (f) FRS 103 – Business Combination 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 was taken to accumulated profits as at 1 January 2005. Please refer to Section 5 on the implications of changes in accounting policies.
- (g) FRS 40 – Investment Property. The Group has opted for early adoption of FRS 40 during the current financial year ended 31 December 2005 although FRS 40 will be effective for annual periods beginning 1 January 2007. The Group adopts the fair value model. Previously, the Group adopted the revaluation method. Under the revaluation method, increases in carrying amounts were recognized as a revaluation surplus in a revaluation reserve and only deficit in revaluation not offset by a previous revaluation surplus is taken to the statement of return.
- (h) Foreign exchange loss/gain represents realised and unrealised foreign exchange differences. The unrealised exchange difference 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 difference arose mainly from the conversion of the foreign currency initial public offering proceeds into Hong Kong dollars at rates closely approximating those ruling at the transaction dates. All exchange differences are included in the income statements.
- (i) Non tax-exempt income refers mainly to bank interest income less deductible expenses.
- (j) 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.
- (k) There is no investment income, write-off for stock obsolescence, impairment in the 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		Group <sup>(a)</sup>	
	HK\$ '000		HK\$ '000	
	Actual	Actual	Actual	Actual
	31/12/05	31/12/04	31/12/05	31/12/04
<b>Current Assets</b>				
Cash and bank balances	124,408	58,175	213,145	103,622
Investment properties held for resale <sup>(b)</sup>	-	-	73,000	-
Trade and other receivables	156,527	78,515	29,922	33,906
Derivative asset <sup>(f)</sup>	-	-	14,272	-
<b>Total Current Assets</b>	<b>280,935</b>	<b>136,690</b>	<b>330,339</b>	<b>137,528</b>
<b>Non-Current Assets</b>				
Investment in property companies <sup>(c)</sup>	3,939,224	531,486	-	-
Loan to property companies <sup>(d)</sup>	-	1,557,799	-	-
Investment properties <sup>(e)</sup>	-	-	8,519,000	4,184,000
Fixed assets	-	-	357	31
Negative goodwill <sup>(g)</sup>	-	-	-	(134,410)
<b>Total Non-Current Assets</b>	<b>3,939,224</b>	<b>2,089,285</b>	<b>8,519,357</b>	<b>4,049,621</b>
<b>Total Assets</b>	<b>4,220,159</b>	<b>2,225,975</b>	<b>8,849,696</b>	<b>4,187,149</b>
<b>Current Liabilities</b>				
Trade and other payables <sup>(h)</sup>	7,099	4,614	189,239	66,295
Borrowings	-	-	12,000	26,000
Provision for taxation	203	19	5,825	5,566
<b>Total Current Liabilities</b>	<b>7,302</b>	<b>4,633</b>	<b>207,064</b>	<b>97,861</b>
<b>Non-Current Liabilities</b>				
Borrowings	-	-	2,348,776	900,000
Deferred tax liabilities	-	-	78,707	55,556
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,427,483</b>	<b>955,556</b>
<b>Total Liabilities</b>	<b>7,302</b>	<b>4,633</b>	<b>2,634,547</b>	<b>1,053,417</b>
<b>Net Assets</b>	<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,133,732</b>
<b>Unitholders' Equity</b>				
Issued equity	4,287,901	2,245,560	4,287,901	2,245,560
Unit issue costs <sup>(i)</sup>	(173,097)	(87,540)	(173,097)	(87,540)
Revaluation reserve <sup>(j)</sup>	-	-	-	908,200
Hedging reserve <sup>(f)</sup>	-	-	14,272	-
Revenue reserve <sup>(i)</sup>	98,053	63,322	2,086,073	67,512
<b>Total Unitholder's Equity</b>	<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,133,732</b>

**Footnotes:**

- (a) *The Group financial information incorporates the financial statements of the Trust and the 11 Property Companies (as at 31 December 2004: 5 Property Companies).*
- (b) *This relates to the divestment of car park lots for one of the investment properties and the sale of these car park lots is expected to be completed after the balance sheet date.*
- (c) *Investment in Property Companies include HK\$1,493.0 million of redeemable preference shares resulting from the conversion of loans to the Property Companies.*
- (d) *The loans were extended to the 4 new Property Companies. On 4 October 2005, the loans were restructured into redeemable preference shares as equity instruments. The restructured preference shares were classified as investment in Property Companies in the current reporting period.*
- (e) *Investment properties are stated at valuation based on an independent professional valuation carried out by Savills Valuation and Professional Services Ltd, the independent valuer, on 31 December 2005. During the period, minor capital costs were incurred and included in the investment properties value.*
- (f) *The derivative asset relates to the fair value of the interest rate swaps transacted to hedge the interest rate risk on the HK\$1,843.5 million term loan.*
- (g) *Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the Property 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 in year 2004. With effect from 2005, the outstanding negative goodwill of HK\$134.4 million as at 31 December 2004 was taken to accumulated profits as at 1 January 2005, in accordance with FRS103.*
- (h) *This includes accrued Manager's base fee payable in units of HK\$6.5 million (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 October 2005 to 31 December 2005, which is payable in Units to the Manager, is taken to equity. Please refer to Section 5 on the implications of changes in accounting policies.*
- (i) *Unit issue costs comprise listing and perusal fee, professional and other fees, underwriting and selling commission and miscellaneous expenses. It includes an amount of approximately HK168.0 million paid as of 31 December 2005 (31 December 2004: HK\$87.1 million) as well as accruals of approximately HK\$5.1 million (31 December 2004: HK\$0.4 million).*
- (j) *The Group early adopted FRS 40 during the year. Following the adoption of this accounting standard, the revaluation reserves from the revaluation of investment properties of HK\$908.2 million as at January 1, 2005 was taken to Revenue Reserve.*

**1 (b)(ii) Aggregate amount of borrowings**

As at 31/12/05

Amount repayable in one year or less, or on demand  
Amount repayable after one year

Secured <sup>(a)</sup>	Unsecured
HK\$ '000	HK\$ '000
12,000	-
2,348,776	-
2,360,776	-

As at 31/12/04

Amount repayable in one year or less, or on demand  
Amount repayable after one year

Secured	Unsecured <sup>(a)</sup>
HK\$ '000	HK\$ '000
-	26,000
-	900,000
-	926,000

**Footnote:**

- (a) Fortune REIT has in place an omnibus facility ("the Facility") of HK\$2,650 million comprising a HK\$2,385 million term loan facility and a HK\$265 million revolving credit facility, each for a term of five years from 28 June 2005. On 28 June 2005, HK\$2,458 million of facilities has been drawn down to partly finance the acquisition of the six properties and to refinance the existing facility (31 December 2004: HK\$926 million unsecured facility was drawn). The term loan facility has been fully drawn as at 31 December 2005. Included in the amount payable after one year is a debt front end fee of HK\$18.1 million. The facilities are secured by, inter alia, a mortgage over the existing and the newly acquired properties (except for Jubilee Court Shopping Centre and Waldorf Garden Property).

**1 (c) Cash flow statement**

	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	Actual 1/10/05 to 31/12/05	Actual 1/10/04 to 31/12/04	Actual 1/1/05 to 31/12/05	Actual 1/1/04 to 31/12/04
<b>Operating Activities</b>				
Profit before taxation	874,552	46,510	1,178,573	184,046
Adjustments for:				
Changes in fair value of properties	(799,295)	-	(799,295)	-
Amortisation of negative goodwill	-	(795)	(141,169)	(3,154)
Depreciation	28	4	45	10
Base fee paid in units	6,497	3,164	18,688	10,796
Borrowing costs	25,467	5,232	59,133	19,475
Operating Profit before changes in working capital	107,249	54,115	<b>315,975</b>	211,173
Decrease/(increase) in trade and other receivables	33,824	(6,883)	12,675	3,626
(Decrease)/increase in trade and other payables	24,004	(4,922)	62,993	(1,351)
Cash generated from operating activities	165,077	42,310	<b>391,643</b>	213,448
Income taxes paid	(57,015)	(8,839)	(57,015)	(8,839)
<b>Cash flows from operating activities</b>	<b>108,062</b>	<b>33,471</b>	<b>334,628</b>	<b>204,609</b>
<b>Investing Activities</b>				
Acquisition of fixed assets	-	-	(371)	(40)
Upgrading of investment properties	-	(348)	(957)	(650)
Acquisition of property companies/properties, net of cash acquired	-	-	(3,377,926)	-
<b>Cash flow used in investing activities</b>	<b>-</b>	<b>(348)</b>	<b>(3,379,254)</b>	<b>(690)</b>
<b>Financing Activities</b>				
Proceeds from issue of new units (net of issue costs)	30	-	1,934,933	-
Distribution paid	2	-	(156,427)	(139,601)
(Repayment)/drawdown of borrowings, net	(35,105)	(32,000)	1,434,776	(31,000)
Borrowing costs paid	(25,467)	(5,232)	(59,133)	(19,475)
<b>Cash flow (used in)/from financing activities</b>	<b>(60,540)</b>	<b>(37,232)</b>	<b>3,154,149</b>	<b>(190,076)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>47,522</b>	<b>(4,109)</b>	<b>109,523</b>	<b>13,843</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>165,623</b>	<b>107,731</b>	<b>103,622</b>	<b>89,779</b>
<b>Cash and cash equivalents at end of the period</b>	<b>213,145</b>	<b>103,622</b>	<b>213,145</b>	<b>103,622</b>

**Notes to the cash flow statement**

**Summary of the effects of acquisition of property companies/properties**

	HK\$ '000
Non-current assets	(3,110,000)
Non-current liabilities	3,306
Net current liabilities	12,771
Group's share of net assets acquired	(3,093,923)
Negative goodwill	141,169
Payment for acquisition of property companies	(2,952,754)
Net cash acquired	72,828
Acquisition of property companies, net of cash acquired	(2,879,926)
Acquisition of properties	(498,000)
<b>Acquisition of property companies/properties, net of cash acquired</b>	<b>(3,377,926)</b>

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

Statement for the fourth quarter

Balance as at beginning of period

Effect on adoption of FRS 40 <sup>(b)</sup>

Net profit

Revaluation reserve

Appreciation on revaluation of investment properties

Increase in net assets resulting from operations

Hedging Reserves

Unitholders' transactions

Creation of units

-management fee paid/payable in units

Establishment and initial public offering expenses

Net increase in net assets resulting from

Unitholders' transactions

Unitholders' funds as at end of period

HK\$ '000			
Trust		Group <sup>(a)</sup>	
Actual 1/10/05 to 31/12/05	Actual 1/10/04 to 31/12/04	Actual 1/10/05 to 31/12/05	Actual 1/10/04 to 31/12/04
<b>4,075,875</b>	<b>2,143,386</b>	<b>5,365,654</b>	<b>2,298,766</b>
-	-	<b>(20,000)</b>	-
130,453	75,315	859,976	37,975
-	-	-	794,350
4,206,328	2,218,701	6,205,630	3,131,091
-	-	2,990	-
6,499	2,563	6,499	2,563
30	78	30	78
6,529	2,641	6,529	2,641
<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,133,732</b>

Statement for the year-to-date

Balance as at beginning of year

Unrealised loss on revaluation of hedging instrument<sup>(c)</sup>

Unamortised negative goodwill taken to Unitholders' funds on adoption of FRS 103<sup>(d)</sup>

Balance at beginning of year, as restated

Operations

Net profit

Transfer to income statement in cash flow hedge

Fair value changes in hedging instrument

Revaluation reserve

Increase in net assets resulting from operations

Unitholders' transactions

Creation of units

-proceeds from issuance of New Units

-management and acquisition fee paid/payable in units<sup>(e)</sup>

Establishment and initial public offering expenses

Distribution to Unitholders

Net increase/(decrease) in net assets resulting from

Unitholders' transactions

Unitholders' funds as at end of year

HK\$ '000			
Trust		Group <sup>(a)</sup>	
Actual 1/1/05 to 31/12/05	Actual 1/1/04 to 31/12/04	Actual 1/1/05 to 31/12/05	Actual 1/1/04 to 31/12/04
<b>2,221,342</b>	<b>2,202,267</b>	<b>3,133,732</b>	<b>2,317,144</b>
-	-	(11,902)	-
-	-	134,410	-
<b>2,221,342</b>	<b>2,202,267</b>	<b>3,256,240</b>	<b>2,317,144</b>
191,158	146,920	1,132,378	150,083
-	-	11,902	-
-	-	14,272	-
-	-	-	794,350
191,158	146,920	1,158,552	944,433
1,986,100	-	1,986,100	-
56,241	10,195	56,241	10,195
(85,557)	1,561	(85,557)	1,561
(156,427)	(139,601)	(156,427)	(139,601)
1,800,357	(127,845)	1,800,357	(127,845)
<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,133,732</b>



**Footnotes:**

- (a) *The Group financial information incorporates the financial statements of the Trust and the 11 Property Companies (31 December 2004: 5 Property Companies).*
- (b) *On 31 December 2005, Fortune REIT early adopted FRS 40. During 3Q 2005, 4 subsidiaries recorded the valuation surplus arising during 3Q 2005 under revaluation reserves. Following the decision to early adopt FRS 40 made in December 2005, this amount was taken to income statement in 4Q 2005. Please refer to Section 5 on the implications of changes in accounting policies.*
- (c) *On 1 January 2005, Fortune REIT adopted FRS 39. Please refer to Section 5 on the implications of changes in accounting policies.*
- (d) *On 1 January 2005, Fortune REIT adopted FRS 103. Please refer to Section 5 on the implications of changes in accounting policies.*
- (e) *This comprises Acquisition Fee component of HK\$34.4 million and the balance represents units issued and to be issued to the manager as payment of the Base Fee component.*

**1 (d)(ii) Details of any changes in the units since the end of the previous period reported on**

<u>Date</u>	<u>Units Issued</u>	<u>Purpose</u>
As at 30 September 2005	800,943,831	Total units since the end of previous financial period
3 October 2005	977,811	As payment of management fee for the period from 1 July 2005 to 30 September 2005
As at 31 December 2005	<u>801,921,642</u>	

**Footnotes:**

- (a) *On 16 January 2006, there was an additional 1,124,236 units issued to the Manager as payment of management fee for the period from 1 October 2005 to 31 December 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 but have been reviewed by the auditors.

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

Please refer to attached review report.

**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\$14.2 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 newly acquired / incorporated property companies, the Manager restructured these loans into redeemable preference shares as equity instruments. The restructured preference shares were classified as investment in property companies.

- (b) FRS 40 – Investment Property which becomes effective for the financial years beginning 1 January 2007. Fortune REIT has opted for early adoption of FRS 40 for the current financial year ended 31 December 2005 and adopts the fair value model. Previously, Fortune REIT adopted the revaluation method. Under the revaluation method, increases in carrying amounts were recognised as a revaluation surplus in a revaluation reserve and only deficit in revaluation not offset by a previous revaluation surplus is taken to the statement of return.

Under FRS 40, changes in the fair value of the investment properties are taken to income statement of the Group. Revaluation reserves arising from the revaluation of investment properties as at 1 January 2005, was taken to revenue reserves.

- (c) 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 and Acquisition Fee, which is payable in Units and is disclosed in equity instead of in current liabilities.
- (d) 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 year ended 31 December 2005 has been reduced by approximately HK\$3.2 million arising from non-amortisation of this negative goodwill. During the financial year, the negative goodwill of HK\$141.2 million arising from the acquisitions for the new properties companies has been recognized as income.

**6. Earnings per unit and Distribution per unit for the financial period**

**Period from 1 October 2005 to 31 December 2005**

	Actual 1/10/05 to 31/12/05 HK cents	Actual 1/10/04 to 31/12/04 HK cents
Earnings per unit for the period based on the total number units in issue	7.56	7.98
Distribution per unit for the period based on the total number units in issue	8.51	8.45
Number of units used for computation (million)	803.0	475.7

**Period from 1 January 2005 to 31 December 2005**

	Actual 1/1/05 to 31/12/05 HK cents	Actual 1/1/04 to 31/12/04 HK cents
Earnings per unit for the period based on the total number units in issue	47.73	31.58
Distribution per unit for the period based on the total number units in issue	33.69	33.40
Number of units used for computation (million)	803.0	475.7

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

	Actual 31/12/05 HK\$	Actual 31/12/04 HK\$
Net asset value per unit <sup>(a)</sup>	7.72	6.87

**Footnotes:**

- (a) Net asset value is calculated based on net assets of the Group excluding hedging reserve. The increase was due to :-
- (i) increase in net asset value which resulted from the acquisition of the additional 6 new properties; and
  - (ii) appreciation on revaluation of investment properties
- (b) The total number of units used for the computation of net asset value per unit is 803.0 million (31 December 2004: 475.7 million). The increase in units was due to:-
- (i) number of units as a result of offer and placement of 318.8 million units on 28 June 2005 to partly finance the acquisitions; and
  - (ii) units issued to Manager as management fee and acquisition fee

## 8. Review of the performance

Income Statement	HK\$ '000		%	HK\$ '000		%
	Actual 1/10/05 to 31/12/05	Actual 1/10/04 to 31/12/04		Increase/ (Decrease)	Actual 1/1/05 to 31/12/05	
<b>Total Revenue</b>	<b>151,007</b>	<b>83,403</b>	<b>81.1%</b>	<b>452,905</b>	<b>308,209</b>	<b>46.9%</b>
Property Operating Expenses	(39,062)	(27,584)	41.6%	(119,677)	(87,885)	36.2%
Net Property Income (before manager's performance fee)	111,945	55,819	100.5%	333,228	220,324	51.2%
Manager's performance fee	(3,359)	(1,675)	100.5%	(9,998)	(6,610)	51.3%
<b>Net Property Income</b>	<b>108,586</b>	<b>54,144</b>	<b>100.6%</b>	<b>323,230</b>	<b>213,714</b>	<b>51.2%</b>
Changes in fair value of properties	799,295	-	100.0%	799,295	-	100.0%
Borrowing costs	(25,467)	(5,232)	386.8%	(59,133)	(19,475)	203.6%
Profit Before Tax	882,414	48,912	1,704.1%	1,063,392	194,239	447.5%
Total Hong Kong Taxation	(14,576)	(8,535)	70.8%	(46,195)	(33,963)	36.0%
Net Profit of Property Companies	867,838	40,377	2,049.3%	1,017,197	160,276	534.7%
Tax deductible trust expenses	(243)	(164)	48.2%	(1,171)	(1,520)	(23.0%)
Changes in fair value of properties	(799,295)	-	NM	(799,295)	-	NM
<b>Income Available For Distribution</b>	<b>68,300</b>	<b>40,213</b>	<b>69.8%</b>	<b>216,731</b>	<b>158,756</b>	<b>36.5%</b>

### Review of performance

#### 4Q 2005 versus 4Q 2004

Total revenue and the net property income for the fourth quarter ended 31 December 2005 were 81.1% and 100.6% respectively above the same quarter last year. This was mainly due to the contributions by the six new properties acquired by Fortune REIT on 28 June 2005. The higher total revenue was also due to higher passing rental achieved in particular for Ma On Shan Plaza and Smartland and rising occupancy of the malls. Property operating expenses for the fourth quarter was 41.67% higher than the same quarter last year mainly due to property operating expenses from the six newly acquired properties. Borrowing costs for 4Q2005 were HK\$25.5 million. This was due to additional loans of HK\$1.5 billion taken up to partly finance the acquisition of the six properties and also partly due to higher interest rates. All in, the income available for distribution for 4Q2005 was higher than the same quarter in 2004 by 69.8%.

#### 31 DECEMBER 2005 versus 31 DECEMBER 2004

For the financial year ended 31 December 2005, total revenue and net property income were 46.9% and 51.2% above the previous financial year ended 31 December 2004 respectively. Income available for distribution was 36.5% above the previous financial year. The better performance was largely due to net property income contributions from the six newly acquired properties of HK\$106.0 million for the period from 29 June 2005 to 31 December 2005, the increase in overall occupancy for the portfolio from 95% to 96.4%<sup>(1)</sup> and a higher passing rental achieved from HK\$16.7 psf per month to HK\$22.9<sup>(1)</sup> psf per month. Borrowing costs were HK\$59.1 million for the financial year ended 31 December 2005 as compared to HK\$19.5 million in the previous financial year because of additional loans taken up to part finance the acquisition and increase in interest rates. The weighted average borrowing cost for the current financial year was 3.27% p.a compared to 2.02% p.a for the previous financial year. Out of the total borrowings of HK\$2.4 billion, about 75% of the debt has been fixed for various maturities to mitigate the impact of rises in interest rates.

(1) Include 6 new properties

9 (a) Income statements – actual versus forecast

	HK\$ '000		%
	Actual 1/1/05 to 31/12/05	Forecast <sup>(a)</sup> 1/1/05 to 31/12/05	Increase/ (Decrease)
Revenue	340,954	330,245	3.2%
Charge-out collections	98,638	94,871	4.0%
<b>Revenue before property income and licence fee top-up</b>	<b>439,592</b>	<b>425,116</b>	<b>3.4%</b>
Property income and licence fee top-up	13,313	21,320	(37.6%)
Property management fees	(9,866)	(9,311)	6.0%
Other property operating expenses	(109,811)	(114,230)	(3.9%)
Property Operating Expenses	(119,677)	(123,541)	(3.1%)
Net Property Income (before manager's performance fee)	333,228	322,895	3.2%
Manager's performance fee	(9,998)	(9,687)	3.2%
<b>Net Property Income</b>	<b>323,230</b>	<b>313,208</b>	<b>3.2%</b>
Changes in fair value of properties (g)	799,295	-	100.0%
Net Property Income before finance costs	1,122,525	313,208	100.0%
Borrowing costs	(59,133)	(62,239)	(5.0%)
Profit Before Tax	1,063,392	250,969	323.7%
Hong Kong Taxation :			
Current taxation	(26,350)	(24,646)	6.9%
Deferred taxation	(19,845)	(19,274)	3.0%
Total Hong Kong Taxation	(46,195)	(43,920)	5.2%
Net Profit of Property Companies	1,017,197	207,049	391.3%
Manager's base fee	(18,688)	(18,054)	3.5%
Negative goodwill	141,169	158,968	(11.2%)
Foreign exchange (loss)/gain	(240)	-	NM
Non-tax deductible trust expenses	(7,155)	(5,110)	40.0%
Tax deductible trust expenses	(1,171)	(2,216)	(47.2%)
Non tax-exempt income	1,266	-	NM
Total Trust Expenses	115,181	133,588	(13.8%)
Net Profit of Group	1,132,378	340,637	232.4%
Add / (less) :			
Manager's base fee	18,688	18,054	3.5%
Negative goodwill	(141,169)	(158,968)	(11.2%)
Foreign exchange loss/(gain)	240	-	NM
Non-tax deductible trust expenses	7,155	5,110	40.0%
Non tax-exempt income	(1,266)	-	NM
Changes in fair value of properties (g)	(799,295)	-	NM
<b>Income Available For Distribution</b>	<b>216,731</b>	<b>204,833</b>	<b>5.8%</b>

**Actual versus Forecast**

Distribution Per Unit (HK cents)

Tax-exempt distribution yield (annualised)

[based on closing price of HK\$5.70 as at 31/12/05 (2004: HK\$6.30)]

	Actual 1/1/05 to 31/12/05	Forecast <sup>(a)</sup> 1/1/05 to 31/12/05
Distribution Per Unit (HK cents)	33.69	32.10
Tax-exempt distribution yield (annualised)	5.91%	5.63%

**Footnotes:**

NM – not meaningful

(a) The extrapolated forecast has been derived from the Forecast on a best estimate basis by the Manager so as to allow like for like comparison with the actual results.

**9 (b) Review of the performance**

**Actual versus Forecast**

Revenue (excluding property income and licence fee top up) and net property income for the financial year ended 31 December 2005 were above forecast by 3.4% and 3.2% respectively. The property income and licence fee top-up for the Metropolis Mall was much lower than forecast due to the better overall performance of the Metropolis mall compared to forecast.

Borrowing costs for the current period were 5.0% lower than forecast. The weighted average borrowing cost for the financial year ended 31 December 2005 was 3.27% p.a versus the forecast interest rate of 3.30% p.a.

All in, income available for distribution for the financial year ended 31 December 2005 increased by HK\$11.9 million to HK\$216.7 million which was 5.8% above forecast.

**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 registered a strong growth rate of 8.2% year-on-year in the third quarter of 2005. Moreover, total retail sales grew 6.8% in the first eleven months of 2005 over the same period last year, as a result of higher incomes and stronger consumer confidence. Labour market conditions continue to improve, unemployment rate stood at 5.3% in November.

Interest rates in Hong Kong continued to rise during the quarter, however, the increase is expected to be moderated. Fortune REIT's distributable income will be affected by the rise in interest rates, but it is mitigated by the fact that Fortune REIT's gearing is low and about 75% of its debt has been fixed.

Three real estate investment trusts were listed on the Hong Kong Stock Exchange in the 4<sup>th</sup> quarter of 2005, including the listing of Link REIT, the largest REIT offering in history. Since listing, the performance of all three Hong Kong REITs have been encouraging, with share price appreciation ranging from 12% to 46% as at 19 January 2006 relative to their IPO price. The strong interest in Hong Kong REITs is expected to enhance the investor awareness of REITs with Hong Kong assets, which in turn could be beneficial to Fortune REIT.

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 31 March 2006.

Source: Census and Statistics Department, Bloomberg

**Outlook for the financial year ending 31 December 2006**

Based on the performance of the portfolio and the financials prepared for the financial year ended 31 December 2005, the Manager of Fortune REIT expects the full year 2006 performance to be comparable to the financial year ended 31 December 2005, barring any unforeseen circumstances.

**11. Distributions**

**(a) Current financial period**

Any distribution declared for the current period?	Yes
Name of distribution	Final distribution for the second half-year period from 28 June 2005 to 31 December 2005
Distribution Type	Tax-exempt income
Distribution Rate	17.22 Hong Kong cents per unit
Par value of units	N.M.
Tax Rate	These distributions are made out of Fortune REIT's tax exempt income. Unitholders receiving distributions will not be assessable to Singapore income tax on the distributions received.

**(b) Corresponding period of the immediately preceding financial year**

Any distribution declared for the current period?	Yes
Name of distribution	Final distribution for the second half-year period from 1 July 2004 to 31 December 2004
Distribution Type	Tax-exempt income
Distribution Rate	16.40 Hong Kong cents per unit
Par value of units	N.M.
Tax Rate	These distributions are made out of Fortune REIT's tax exempt income. Unitholders receiving distributions will not be assessable to Singapore income tax on the distributions received.

**(c) Date Payable** 28 February 2006

**(d) Book closure date** 6 February 2006

**Footnotes:**  
NM - Not meaningful

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

Not applicable.

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

24 January 2006



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Attention: Mr John Lim


Dear Sirs

We have reviewed the accompanying balance sheets of Fortune Real Estate Investment Trust ("Fortune REIT") and the Group as at December 31, 2005 together with the related statements of income, changes in unitholders' funds and cash flows of the Group for the financial period from January 1, 2005 to December 31, 2005. These financial statements are the responsibility of ARA Asset Management (Singapore) Limited ("The Manager of Fortune REIT") and HSBC Institutional Trust Services (Singapore) Limited ("The Trustee of Fortune REIT"). Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Singapore Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of management and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements of Fortune REIT and the Group are not presented fairly, in all material respects, in accordance with Singapore Financial Reporting Standards.

Yours faithfully

  
Certified Public Accountants  
Singapore

January 20, 2006

Audit • Tax • Consulting • Financial Advisory.

Member of  
Deloitte Touche Tohmatsu