



# Results for the quarter ended Mar 2004

Analyst briefing  
12 May 2004

**ARA** Asset Management (Singapore) Limited

# Disclaimer

**This presentation is focused on comparing actual results versus forecasts outlined in the Fortune REIT Prospectus dated 28 Jul 2003. It should be read in conjunction with Paragraph 9 of Fortune REIT's financial results for the period 1 Jan 2004 to 31 Mar 2004 announced on MASNET.**

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# Executive summary

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# Executive summary

- ❖ **Fortune REIT out-performed forecast again**
  - **Income available for distribution 9.3% above forecast**
    - third successive out-performance since IPO
  - **Hong Kong's economy is continuing to strengthen**
    - retail sales showing broad-based trend recovery
  - **Mall rentals rising steadily**
    - Ma On Shan is strongest performer
  - **Acquisition program on course**

# Financial highlights

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# Trust income

## ❖ Income available for distribution 9.3% above forecast

### Fortune REIT summary results, qtr ended Mar 2004

	Actual (HK\$'000)	Forecast <sup>1</sup> (HK\$'000)	Var (%)
Revenue	57,612	57,357	0.4
Charge-out collections	15,923	18,105	-12.1
Property operating costs <sup>2</sup>	19,018	22,711	-16.3
Borrowings costs	4,240	6,694	-36.7
Profit before tax	50,277	46,057	9.2
Hong Kong tax	8,783	8,060	9.0
Net profit of property cos	41,494	37,997	9.2
Net profit of trust <sup>3</sup>	39,192	35,562	10.2
<b>Income available for dist'n</b>	<b>40,988</b>	<b>37,504</b>	<b>9.3</b>

- **Costs savings target achieved**  
– 24% cost-to-total revenue<sup>4</sup>
- **Rental revenue exceeded forecast**
- **Charge-outs lower due to lower costs**

Source: ARA Asset Management (Singapore) Limited ("ARASL")

Notes:

1. Based on the same assumptions stated in the Prospectus dated 28 Jul 2003
2. Includes Manager's performance fee
3. Trust expenses include the Manager's base fee, trustee fees, and admin fees
4. Before Manager's performance fee

# Distribution income

## ❖ Tax-exempt distribution yield of 6.67% achieved

### Fortune REIT distribution income, qtr ended Mar 2004<sup>1</sup>

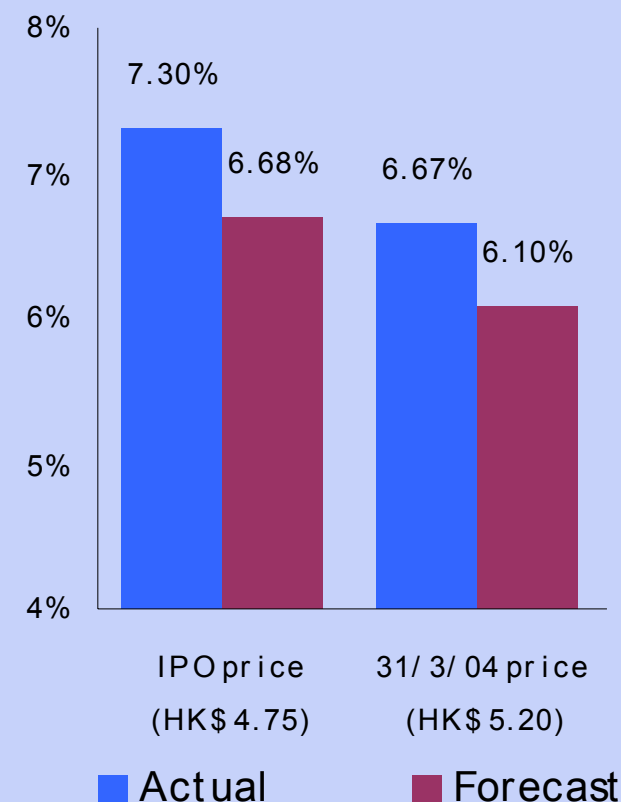
	Actual	F'cast <sup>2</sup>	Var
Distribution per unit ("DPU") <sup>3</sup>			
- qtr ended Mar 2004 (HK\$)	0.0864	0.0791	9.3
- annualised (HK\$)	0.3466	0.3173	9.3
Distribution yield (tax-exempt) <sup>4</sup>			
- based on IPO price (%) <sup>5</sup>	7.30	6.68	9.3
- based on 31/3/04 price (%) <sup>6</sup>	6.67	6.10	9.3

Source: ARASL

Notes:

- Fortune REIT's policy is to distribute its net tax-exempt income semi-annually (for the half years ending in Jun and Dec)
- Based on the assumptions stated in the Prospectus dated 28 Jul 2003
- Based on 474.3m units, comprising 473.8m as at 31 Mar 04, and 0.5m in base fees payable to manager on 1 Apr 04
- Tax-exempt, annualised
- IPO price was HK\$4.75
- Closing price on 31 Mar 2004 was HK\$5.20

### Distribution yield (tax-exempt)





# Distribution yield

❖ Pre-tax yield of 8.09% is highest of any Asian REIT (ex-Australia)

## Fortune REIT distribution yield

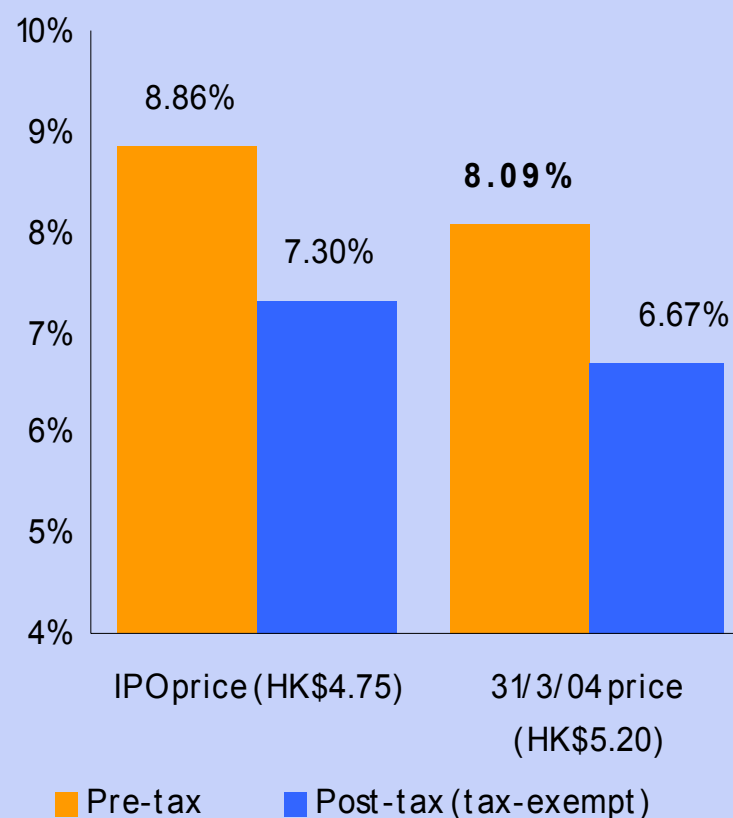
	Actual
Based on IPO price <sup>1</sup>	
- pre-tax yield (%) <sup>2</sup>	8.86
- tax-exempt yield (%) <sup>3</sup>	7.30
Based on 31/3/04 price <sup>4</sup>	
- pre-tax yield (%)	<b>8.09</b>
- tax-exempt yield (%)	<b>6.67</b>

Source: ARASL

Notes:

1. IPO price was HK\$4.75
2. Before HK income taxes. This figure is shown solely to illustrate the yield before the impact of HK taxes on the Property Cos. This does not imply investors are eligible for any dividend tax credits
3. Yield to investors of Fortune REIT, which is after accounting for HK income taxes, and is free of tax in Singapore
4. Closing price on 31 Mar 2004 was HK\$5.20

## Distribution yield



# Debt management

## ❖ Debt servicing below forecast, more hedging to be set

### Fortune REIT interest expense

	Actual	F'cast <sup>1</sup>	Var
Borrowing costs (HK\$m)	4.2	6.7	-2.5
Avg int. rate <sup>2</sup>	1.74%	3.00%	-126 bps

Source: ARASL

Notes:

1. Based on the assumptions in the Prospectus dated 28 Jul 2003
2. Weighted by the relative amounts of fixed and floating debt

- Interest expense HK\$2.5m below forecast
- 37% of debt now fixed
  - target is to fix 50%

### Fortune REIT debt

	Term	31/12/03 (HK\$m)	31/3/04 (HK\$m)	% of total
Revolving	1M	57	56	6
Floating	3M	550	550	57
Fixed	3Y	350	350	37
<b>Total</b>		<b>957</b>	<b>956</b>	<b>100</b>

Source: ARASL

# Interest cost analysis

## ❖ Rise in rates not expected to have significant impact on income

### Impact of 50 bps interest rate rise<sup>1</sup>

(HK\$m)	IPO f'cast	Rev. f'cast <sup>2</sup>	50 bps rise
<b>Interest exp, 2004</b>			
- Revolving <sup>3</sup>	n.a.	0.3	0.5
- Floating <sup>4</sup>	n.a.	4.1	5.9
- Fixed <sup>5</sup>	n.a.	11.7	11.7
<b>- total</b>	<b>26.9</b>	<b>16.1</b>	<b>18.1</b>
<b>Interest exp, 2005</b>	<b>n.a.</b>	<b>16.1</b>	<b>19.0</b>

Source: ARASL

Notes:

1. Assuming the existing debt structure
2. Revised forecasts: based on latest available actuals and assuming no rate change for the rest of the year
3. Monthly rollovers
4. On three month maturities, next roll-over is in mid-May 2004
5. Fixed till Aug 2006

- Effect of 50 bps rise in rates is small
  - interest costs to remain within IPO forecast
- Likely to be mitigated by rental rises
  - which is priority of ARASL
  - overall effect likely to be small

# Balance sheet

## ❖ Unit price currently at book value

### Fortune REIT balance sheet

	31 Dec 03 (HK\$m)	31 Mar 04 (HK\$m)	Ch (%)
Total assets	3,379	3,371	(0.2)
Total liabilities	(1,062)	(1,070)	0.8
Net assets	2,317	2,301	(0.7)
<b>NAV per unit (HK\$)<sup>1</sup></b>	5.18 <sup>2</sup>	5.14 <sup>3</sup>	(0.8)
LT debt	(957)	(956)	(0.1)
Gearing <sup>4</sup>	28%	28%	n.a.

Source: ARASL

Notes:

1. Net asset value excludes negative goodwill
2. Includes distributable amount of HK\$0.1243
3. After cash distribution of HK\$0.1243 which was paid in Feb 2004. Number of units used is 474.3m units, comprising 473.8m as at 31 Mar 04, and 0.5m in base fees payable to manager on 1 Apr 04
4. Total debt to Deposited Property

- Gearing unchanged at 28%
  - room for another \$HK220m (35% limit)
- Current unit price is at book value
- Interim distribution payable in Aug 2004

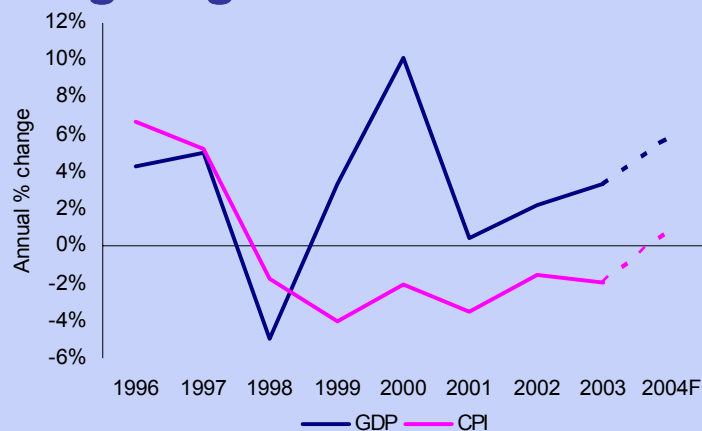
# Hong Kong economy

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# Economic growth

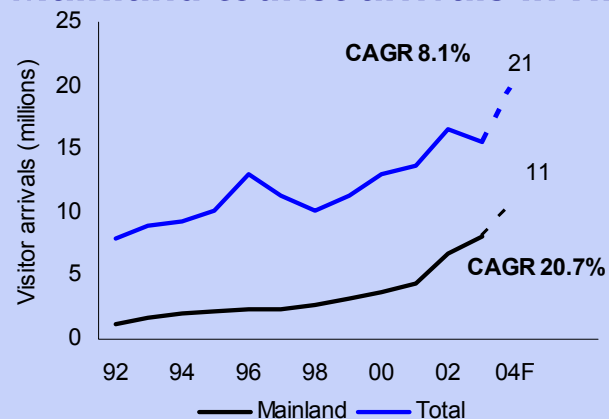
## ❖ HK's economic recovery is genuine

### Hong Kong real GDP and inflation



Source: Bloomberg, consensus forecasts

### Mainland tourist arrivals in HK



Source: Bloomberg, HK Tourism Board forecasts

### Hong Kong economic indicators

YE Dec	01	02	03	04F
Nom. GDP	-3.0	0.7	1.4	5.8
10y bond (%)	6.2	4.4	4.4	5.1
- real rate	9.7	6.0	6.3	3.8
Current acc (% to GDP) <sup>1</sup>	5.1	9.8	15.4	n.a.
HKD/EUR	6.9	8.2	9.8	n.a.

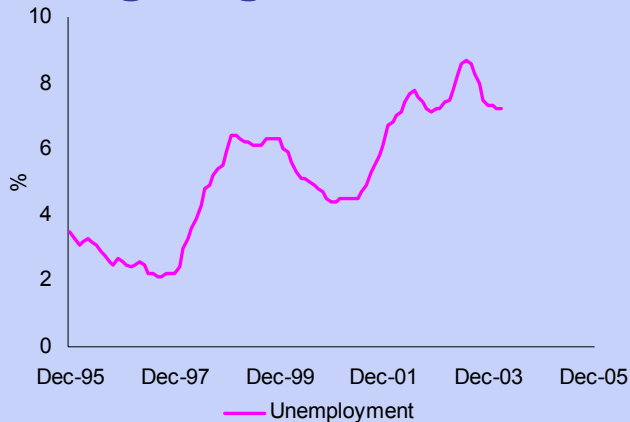
Source: HK CSD, Bloomberg, consensus

- Nominal GDP increasing, deflation ending after 5 years
- Positive impacts: lower real interest rates, weaker USD, China
- Mainland residents eligible for individual tourist travel to HK increased to 150m

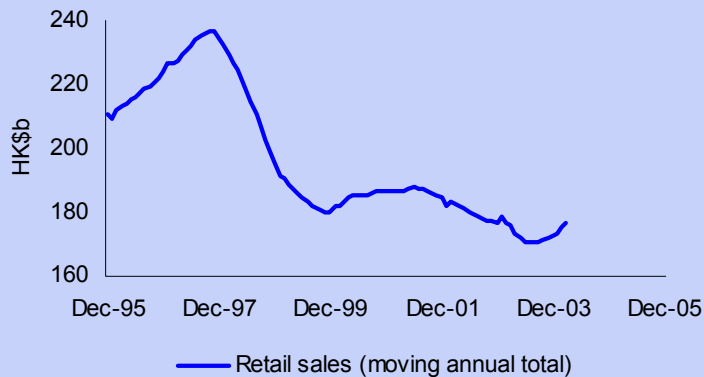
# Retail sales

## ❖ Rise in consumer confidence driving retail sales recovery

### Hong Kong labour market



### Hong Kong retail sales (nominal)



Source: Census and Statistics Dept, ARASL

- Improving labour market . . .
  - unemployment has peaked; attempting to go below 7%
- . . . is lifting consumer confidence
- . . . and driving retail sales trend recovery
  - across the board increases
  - including durable items
  - rose 8.4% in 1Q04 over 1Q03

# Asset performance

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# Metropolis Mall

## ❖ Steady progress being made: shopper traffic and occupancy rising

### Metropolis singing competition



- Committed occupancy now at 64.5%
- Shopper traffic rising due to
  - mall promotions
  - more Mainland tourists
  - increase in number of concerts at the adjacent Coliseum
  - more F & B outlets

# Occupancy

## ❖ Portfolio occupancy continues to rise

### Fortune REIT occupancy profile

End	Sep 03	Dec 03	Mar 04
No. of tenants	384	390	394
Portfolio occ. (%)	83.4	84.4	86.2

### Committed occupancy (%)

End	Sep 03	Dec 03	Mar 04
Metropolis Mall	59.1	59.0	64.5
Ma On Shan Plaza	92.4	95.7	96.2
Household Center	97.7	97.3	97.8
Smartland	96.0	95.6	95.1
Jubilee Court	97.3	98.1	97.0
<b>Portfolio</b>	<b>83.4</b>	<b>84.4</b>	<b>86.2</b>

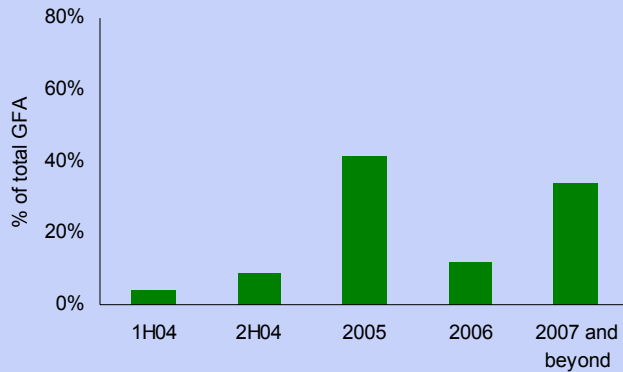
Source: ARASL, Prospectus dated 28 Jul 2003

- **Metropolis**
  - steady increase in lease-up
  - to secure one/two more anchors focused on China tourist trades
- **Ma On Shan Plaza**
  - greater activity as KCRC station nears completion
- **Others**
  - relatively stable occupancies above 95%

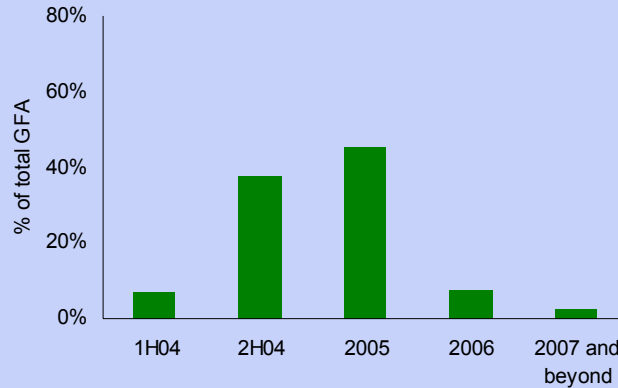
# Expiry profile of portfolio

❖ Well spread out expiry profile

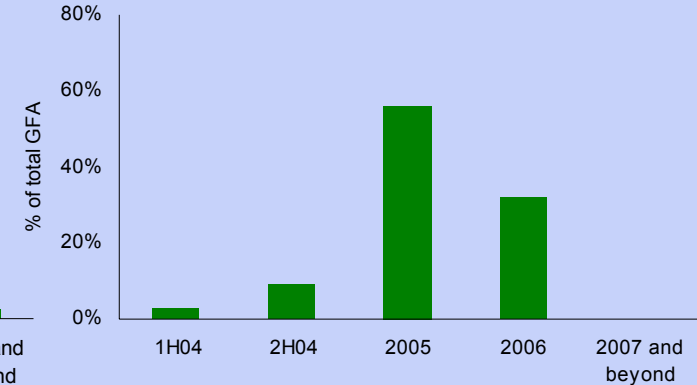
**Metropolis Mall**



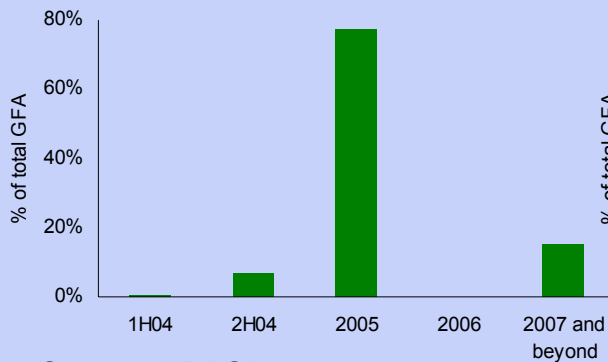
**Ma On Shan Plaza**



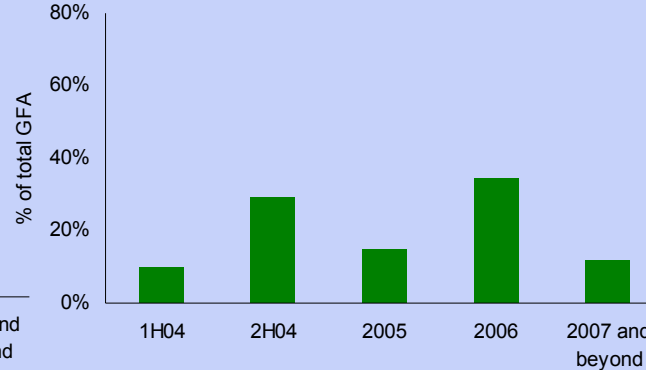
**Smartland**



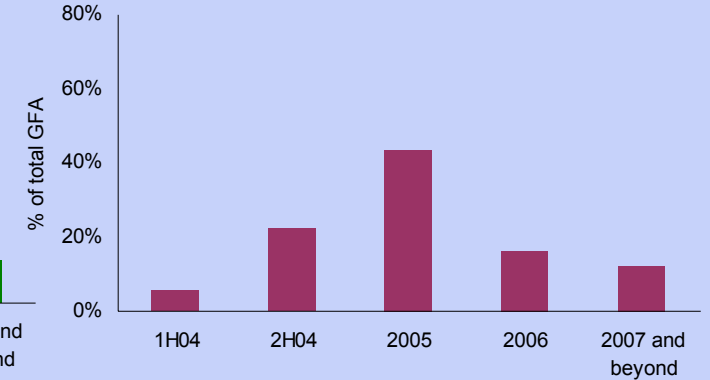
**Household Center**



**Jubilee Court**



**Portfolio**



Source: ARASL

# Tenant trade mix

## ❖ Tenant base little change; remains diversified

### By gross lettable area (%)

	Metro- polis Mall	Ma On Shan Plaza	Smart- land	House- hold Center	Jubilee Court	Port- folio
Banking & Real Estate Services	18.8	8.3	0.0	0.5	1.3	7.3
Community Services	3.1	0.2	11.1	0.0	22.2	6.5
Electronics, IT	1.1	4.8	0.7	0.0	0.0	2.0
Fashion & Shoes	6.7	4.3	2.8	1.6	0.0	3.5
Food & Beverage, Food Court	38.0	27.6	27.9	21.4	17.2	27.3
Gifts & Specialty, Books, Hobbies, Toys, Jewellery	6.5	3.3	3.2	2.4	1.5	3.5
Homeware & Home Furnishings	6.4	5.1	0.5	2.2	0.0	3.5
Leisure & Entertainment, Sports & Fitness	2.7	5.6	9.3	0.5	0.0	3.9
Others	11.0	7.9	1.7	0.5	14.6	8.3
Services, Education	2.4	13.8	15.5	25.0	37.0	17.1
Supermarket	3.3	19.0	27.4	45.9	5.0	16.8
Wet Markets	0.0	0.0	0.0	0.0	1.3	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: ARASL

# Rentals

## ❖ Mall rentals increasing steadily

### Portfolio rents<sup>1</sup>

	Current avg. passing rental (HK\$ psf/mth)	Quarterly change (%)	Committed occupancy (%)
Mar 2003	14.76		81.8
Jun 2003	14.74	-0.1	82.4 <sup>2</sup>
Sep 2003	14.79	0.3	83.4
Dec 2003	15.01	1.5	84.4
<b>Mar 2004</b>	<b>15.19</b>	<b>1.2</b>	<b>86.2</b>

Source: ARASL, Prospectus dated 28 Jul 2003

Notes:

1. Base rental and other income (excluding charge-out collections)
2. Actual occupancy

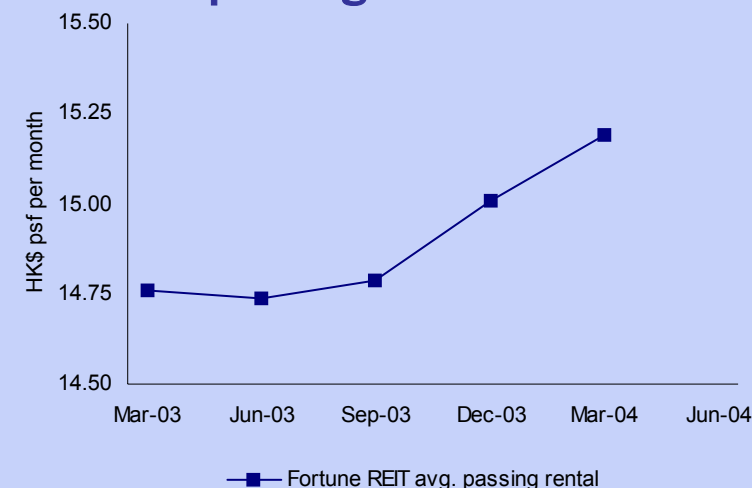
- **Portfolio rent**

- average passing rental rose **1.2%** over the quarter

- **Renewal cases in 1Q 2004**

- weighted avg. rental was **11%** higher than existing rentals

### Portfolio passing rents



Source: ARASL, Prospectus dated 28 Jul 2003

# Strategy

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# Strategy

- ❖ **ARASL expects forecast for 2004 to be comfortably met**
  - **Ma On Shan Plaza asset enhancement**
    - work in progress on forthcoming KCRC link
    - separate mall enhancement works to begin in late 2004
  - **Metropolis Mall leasing**
    - will secure major tenant(s) in China tourist trade
    - which will then attract more specialty tenants
  - **Cost rationalisation to continue**
    - long term target: cost-to-revenue of 25%
    - met this quarter

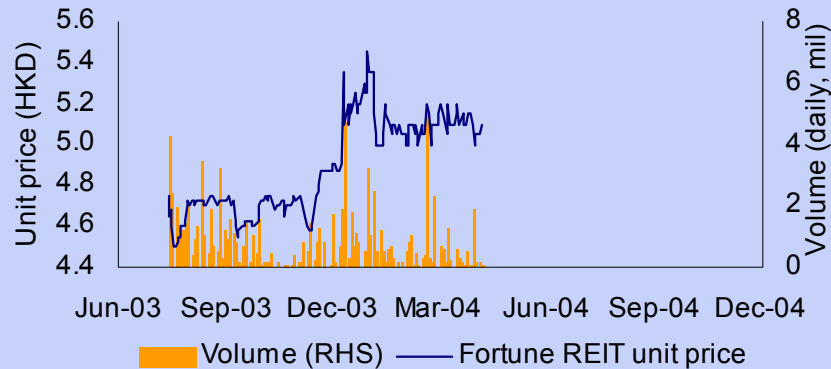
# Strategy (cont'd)

- **Acquisitions**
  - potential deals being negotiated
  - moratorium on CKH properties ends Aug 2004
  - acquisitions will be yield accretive



# Unit activity

Unit price and volume<sup>1</sup>

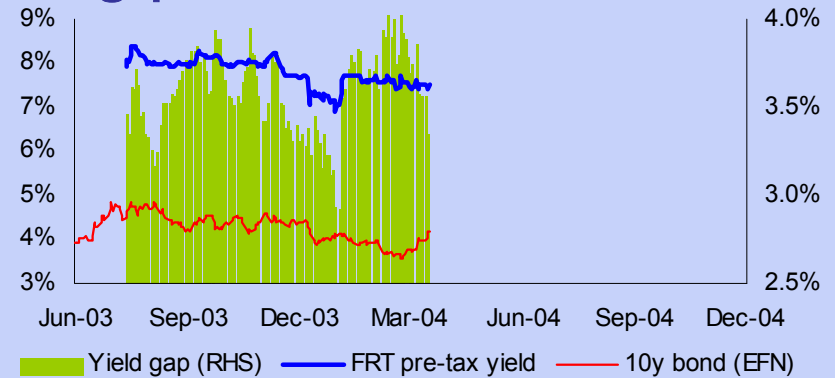


Source: ARASL, Bloomberg

Notes:

1. As at 6/5/04. Volume chart excludes first day of trade

Yield gap<sup>2</sup>



Source: ARASL, Bloomberg

Notes:

1. As at 6/5/04. The pre-tax yield is based on assumptions and income forecasts stated in the Prospectus dated 28 Jul 2003

- Unit price currently at book value

## In sum

- Fortune REIT's distributable income exceeded forecast by 9.3%
- Hong Kong's economy and retail sales continue to strengthen
- Occupancies at Fortune REIT's malls are improving
  - upward pressure on rentals materialising
- Operating costs rationalisation bearing fruit
- Asset enhancement at Ma On Shan Plaza forthcoming
- Yield-accretive acquisitions pending

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