



**Fortune Real Estate Investment Trust  
Financial Statements  
for the financial period from 1 January 2006 to 31 March 2006**

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 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 828 tenants as at 31 March 2006 from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers. Notable tenants include Park'N Shop, Maxim's Chinese Restaurant, Watson's, Fortress, McDonald's, GOME, Bank of China (Hong Kong), DBS Bank, The Hongkong & Shanghai Banking Corporation Limited, Baleno, Bluestar Exchange, International Christian School Limited, and the Hong Kong Jockey Club.

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		%
	Actual 1/1/06 to 31/3/06 <sup>(h)</sup>	Actual 1/1/05 to 31/3/05 <sup>(h)</sup>	Increase/ (Decrease)
Revenue (including property income and licence fee top-up) <sup>(a)</sup>	124,362	56,277	121.0%
Charge-out collections <sup>(b)</sup>	29,767	19,059	56.2%
<b>Total revenue</b>	<b>154,129</b>	<b>75,336</b>	<b>104.6%</b>
Property management fees	(3,435)	(1,481)	131.9%
Other property operating expenses <sup>(c)</sup>	(33,462)	(16,070)	108.2%
Property Operating Expenses	(36,897)	(17,551)	110.2%
Net Property Income (before manager's performance fee)	117,232	57,785	102.9%
Manager's performance fee	(3,517)	(1,734)	102.8%
<b>Net Property Income</b>	<b>113,715</b>	<b>56,051</b>	<b>102.9%</b>
Borrowing costs <sup>(d)</sup>	(25,457)	(5,560)	357.9%
Profit Before Tax	88,258	50,491	74.8%
Hong Kong Taxation :			
Current taxation	(10,604)	(4,116)	157.6%
Deferred taxation	(4,779)	(4,673)	2.3%
Total Hong Kong Taxation	(15,383)	(8,789)	75.0%
Net Profit of Property Companies	72,875	41,702	74.8%
Manager's base fee	(6,356)	(3,095)	105.4%
Foreign exchange (loss)/gain <sup>(e)</sup>	828	(141)	(687.2%)
Non-tax deductible trust expenses	(2,128)	(565)	276.6%
Tax deductible trust expenses	(401)	(203)	97.5%
Non tax-exempt income <sup>(f)</sup>	1,020	125	716.0%
Total Trust (Expenses)/Income	(7,037)	(3,879)	81.4%
Net Profit of Group	65,838	37,823	74.1%
Add / (less) :			
Manager's base fee	6,356	3,095	105.4%
Foreign exchange (loss)/gain <sup>(e)</sup>	(828)	141	(687.2%)
Non-tax deductible trust expenses	2,128	565	276.6%
Non tax-exempt income <sup>(f)</sup>	(1,020)	(125)	716.0%
<b>Income Available For Distribution<sup>(g)</sup></b>	<b>72,474</b>	<b>41,499</b>	<b>74.6%</b>

**Footnotes:**

NM - Not meaningful

- (a) Revenue includes rental income, car park income, licence income, atrium income and others. 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.
- (b) 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.
- (c) The other property operating expenses include provision for doubtful debts of HK\$70,282 for the period 1 January 2006 to 31 March 2006 (provision for doubtful debts for the period 1 January 2005 to 31 March 2005 was HK\$Nil) and provision for doubtful debts written back of HK\$Nil (provision for doubtful debts written back for the period 1 January 2005 to 31 March 2005 was HK\$2,693) respectively.
- (d) 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
- (e) 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.
- (f) Non tax-exempt income refers mainly to bank interest income less deductible expenses.
- (g) 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.
- (h) The financial information for the current period incorporates the financial statements of the Trust and the 11 Property Companies. For the period 1 January 2005 to 31 March 2005, the financial information comprises of the Trust and 5 Property Companies.
- (i) 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 31/3/06	Actual 31/12/05	Actual 31/3/06	Actual 31/12/05
<b>Current Assets</b>				
Cash and bank balances	125,413	124,408	226,025	213,145
Investment properties held for resale <sup>(b)</sup>	-	-	73,000	73,000
Trade and other receivables	17,161	156,527	44,482	48,034
Derivative asset <sup>(c)</sup>	-	-	17,430	14,272
<b>Total Current Assets</b>	<b>142,574</b>	<b>280,935</b>	<b>360,937</b>	<b>348,451</b>
<b>Non-Current Assets</b>				
Investment in property companies <sup>(d)</sup>	3,939,224	3,939,224	-	-
Investment properties <sup>(e)</sup>	-	-	8,519,730	8,519,000
Fixed assets	-	-	335	357
<b>Total Non-Current Assets</b>	<b>3,939,224</b>	<b>3,939,224</b>	<b>8,520,065</b>	<b>8,519,357</b>
<b>Total Assets</b>	<b>4,081,798</b>	<b>4,220,159</b>	<b>8,881,002</b>	<b>8,867,808</b>
<b>Current Liabilities</b>				
Trade and other payables	6,285	7,099	194,738	189,239
Borrowings	-	-	67,000	12,000
Provision for taxation	361	203	15,668	5,825
<b>Total Current Liabilities</b>	<b>6,646</b>	<b>7,302</b>	<b>277,406</b>	<b>207,064</b>
<b>Non-Current Liabilities</b>				
Borrowings	-	-	2,367,894	2,366,888
Deferred tax liabilities	-	-	83,487	78,707
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,451,381</b>	<b>2,445,595</b>
<b>Total Liabilities</b>	<b>6,646</b>	<b>7,302</b>	<b>2,728,787</b>	<b>2,652,659</b>
<b>Net Assets</b>	<b>4,075,152</b>	<b>4,212,857</b>	<b>6,152,215</b>	<b>6,215,149</b>
<b>Unitholders' Equity</b>				
Issued equity	4,294,257	4,287,901	4,294,257	4,287,901
Unit issue costs <sup>(f)</sup>	(173,097)	(173,097)	(173,097)	(173,097)
Hedging reserve <sup>(c)</sup>	-	-	17,430	14,272
Revenue reserve <sup>(g)</sup>	(46,008)	98,053	2,013,625	2,086,073
<b>Total Unitholder's Equity</b>	<b>4,075,152</b>	<b>4,212,857</b>	<b>6,152,215</b>	<b>6,215,149</b>

**Footnotes:**

- (a) The Group financial information incorporates the financial statements of the Trust and the 11 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) 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.
- (d) Investment in Property Companies include HK\$1,493.0 million of redeemable preference shares resulting from the conversion of loans to the Property Companies.
- (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) 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 HK\$168.7 million paid as of 31 March 2006 (31 December 2005: HK\$168.0 million) as well as accruals of approximately HK\$4.4 million (31 December 2005: HK\$5.1 million).
- (g) The Group early adopted FRS 40 during the financial year ended 31 December 2005. Following the adoption of this accounting standard, the revaluation reserves from the revaluation of investment properties of HK\$908.2 million as at 1 January 2005 was taken to Revenue Reserve.

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

As at 31/3/06

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

Secured <sup>(a)</sup>	Unsecured
HK\$ '000	HK\$ '000
67,000	-
2,367,894	-
2,434,894	-

As at 31/12/05

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

Secured	Unsecured
HK\$ '000	HK\$ '000
12,000	-
2,366,888	-
2,378,888	-

**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. 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\$17.1 million (31 December 2005: 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
	Actual 1/1/06 to 31/03/06	Actual 1/1/05 to 31/03/05
<b>Operating Activities</b>		
Profit before taxation	81,221	46,612
Adjustments for:		
Depreciation	22	4
Base fee paid in units	6,356	3,095
Borrowing costs	25,457	5,560
Operating Profit before changes in working capital	113,056	55,271
Decrease in trade and other receivables	3,552	17,439
Increase in trade and other payables	5,499	7,876
Cash generated from operating activities	122,107	80,586
Income taxes paid	(760)	-
<b>Cash flows from operating activities</b>	<b>121,347</b>	<b>80,586</b>
<b>Investing Activities</b>		
Upgrading of investment properties	(730)	(136)
<b>Cash flow used in investing activities</b>	<b>(730)</b>	<b>(136)</b>
<b>Financing Activities</b>		
Distribution paid	(138,286)	(78,010)
(Repayment)/drawdown of borrowings, net	56,006	15,000
Borrowing costs paid	(25,457)	(5,560)
<b>Cash flow used in financing activities</b>	<b>(107,737)</b>	<b>(68,570)</b>
<b>Net increase in cash and cash equivalents</b>	<b>12,880</b>	<b>11,880</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>213,145</b>	<b>103,622</b>
<b>Cash and cash equivalents at end of the period</b>	<b>226,025</b>	<b>115,502</b>

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

Statement for the first quarter	HK\$ '000			
	Trust		Group <sup>(a)</sup>	
	Actual 1/01/06 to 31/03/06	Actual 1/01/05 to 31/03/05	Actual 1/01/06 to 31/03/06	Actual 1/01/05 to 31/03/05
<b>Balance as at beginning of period</b>	<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,133,732</b>
Unrealised loss on revaluation of hedging instrument <sup>(b)</sup>	-	-	-	(11,902)
Unamortised negative goodwill taken to Unitholders' funds on adoption of FRS 103 <sup>(c)</sup>	-	-	-	134,410
<b>Balance at beginning of year, as restated</b>	<b>4,212,857</b>	<b>2,221,342</b>	<b>6,215,149</b>	<b>3,256,240</b>
<b>Operations</b>				
Net profit/(loss)	(5,775)	(3,891)	65,838	37,823
Fair value changes in hedging instrument	-	-	3,158	14,385
Increase in net assets resulting from operations	4,207,082	2,217,451	6,284,145	3,308,448
<b>Unitholders' transactions</b>				
Creation of units				
-management fee paid/payable in units	6,356	6,258	6,356	6,258
Distribution to Unitholders	(138,286)	(78,010)	(138,286)	(78,010)
Net increase in net assets resulting from Unitholders' transactions	(131,930)	(71,752)	(131,930)	(71,752)
<b>Unitholders' funds as at end of period</b>	<b>4,075,152</b>	<b>2,145,699</b>	<b>6,152,215</b>	<b>3,236,696</b>

**Footnotes:**

- (a) The financial information for the current period incorporates the financial statements of the Trust and the 11 Property Companies. For the period 1 January 2005 to 31 March 2005, the financial information comprises of the Trust and 5 Property Companies. .
- (b) On 1 January 2005, Fortune REIT adopted FRS 39 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 will be taken to the profit and loss statement. As a result of the implementation of FRS 39 on 1 January 2005, the opening balance of 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.
- (c) On 1 January 2005, Fortune REIT adopted FRS 103. 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 5 Property Companies made as at 1 January 2005 of HK\$134.4 million was taken to accumulated profits as at 1 January 2005.
- (f) Fortune REIT early adopted FRS 40 in December 2005. Following the decision to early adopt FRS 40, the Group adopted 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.

**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 1 January 2006	801,921,642	Total units since the end of previous financial period
16 January 2006	1,124,236	As payment of management fee for the period from 1 October 2005 to 31 December 2005
As at 31 March 2006	<u>803,045,878</u>	
6 April 2006	995,742	As payment of management fee for the period from 1 January 2006 to 31 March 2006
Deemed units as at 31 March 2006	<u>804,041,620</u>	

**Footnotes:**

(a) On 6 April 2006, there was an additional 995,742 units issued to the Manager as payment of management fee for the period from 1 January 2006 to 31 March 2006.

**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 2005.

**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**

Not applicable.



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

Period from 1 January 2006 to 31 March 2006

	Actual 1/1/06 to 31/3/06 HK cents	Actual 1/1/05 to 31/3/05 HK cents
Earnings per unit for the period based on the total number units in issue	8.19	7.94
Distribution per unit for the period based on the total number units in issue	9.01	8.72
Number of units used for computation (million)	804.0	476.1

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

	Actual 31/3/06 HK\$	Actual 31/3/05 HK\$
Net asset value per unit <sup>(a)</sup>	7.63	6.79

**Footnotes:**

(a) Net asset value is calculated based on net assets of the Group excluding hedging reserves. 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 as at 31 December 2005

(b) The total number of units used for the computation of net asset value per unit is 804.0 million (31 March 2005: 476.1 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		%
	Actual 1/1/06 to 31/3/06	Actual 1/1/05 to 31/3/05	
<b>Total Revenue</b>	<b>154,129</b>	<b>75,336</b>	<b>104.6%</b>
Property Operating Expenses	(36,897)	(17,551)	110.2%
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Profit Before Tax	88,258	50,491	74.8%
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Net Profit of Property Companies	72,875	41,702	74.8%
Tax deductible trust expenses	(401)	(203)	97.5%
<b>Income Available For Distribution</b>	<b>72,474</b>	<b>41,499</b>	<b>74.6%</b>

## **Review of the performance**

### **1Q 2006 versus 1Q 2005**

Total revenue and the net property income for the first quarter ended 31 March 2006 were 104.6% and 102.9% respectively above the same quarter last year. This was mainly due to contributions by the six properties newly acquired by Fortune REIT on 28 June 2005 and a better performance by the existing 5 malls, in particular for Ma On Shan Plaza with total revenue and net property income increases of 16.0% and 16.2% respectively above the same quarter last year. The higher total revenue was also due to higher passing rental achieved. The portfolio passing rental was HK\$23.4<sup>(1)</sup> psf per month as at 31 March 2006. Property operating expenses for the first quarter was 110.2% higher than the same quarter last year mainly due to property operating expenses from the six newly acquired properties.

Borrowing costs for 1Q2006 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. Interest rates in Hong Kong had been relatively volatile since 2005, with the 3-month Hong Kong Interbank Offer Rate ("HIBOR") rising from 0.8% in January 05 to over 4.4% in March 2006. The weighted average borrowing cost for the first quarter ended 31 March 2006 was 4.2% p.a as compared to 2.4% p.a for the same quarter last year. Out of the total borrowings of HK\$2.4 billion, about 75% of the debt had been fixed for various maturities to mitigate the impact of rises in interest rates.

All in, the income available for distribution for 1Q2006 was higher than the same quarter in 2005 by 74.6%.

(1) Include 6 new properties

### **9. Variance between actual and the forecast results for the period from 1 January 2006 to 31 March 2006**

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**

Business conditions in Hong Kong continue to be underpinned by steady growth in the economy. Hong Kong's economy registered a strong growth rate of 7.3% year-on-year in 2005. In addition, retail sales saw an increase of 6.0% in the first three months of 2006 over the same period a year ago. This was the result of higher income and stronger consumer confidence. Labour market conditions also continue to improve, with unemployment rate at 5.2% in March 2006.

Interest rates in Hong Kong continued to rise during the quarter. 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.

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 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 period from 1 January 2006 to 31 March 2006, the Manager of Fortune REIT expects the performance of the portfolio to be comparable with the 2005 performance, barring any unforeseen circumstances.

## 11. Distributions

### (a) Current financial period

Any distribution declared for the current period? Nil

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

Any distribution declared for the current period? Nil  
Name of distribution N.A.  
Distribution Type N.A.  
Distribution Rate N.A.  
Par value of units N.M.  
Tax Rate N.A.

(c) Date Payable Not applicable

(d) Book closure date Not applicable

#### **Footnotes:**

*N.M. - Not meaningful*

*N.A. - Not applicable*

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

No distribution has been declared or recommended for the current financial period from 1 January 2006 to 31 March 2006.

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

9 May 2006