



## Results for the period ended Sep 2003

19 Nov 2003

**ARA** Asset Management (Singapore) Limited

# Disclaimer

**This presentation is focused on comparing actual results versus forecasts outlined in the Fortune REIT Prospectus dated 28<sup>th</sup> July 2003. It should be read in conjunction with Paragraph 9 of Fortune REIT's quarter results for the period 13 August 2003 to 30 September 2003 announced on MASNET.**

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# Executive summary

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# Executive summary

- ❖ **Fortune REIT performed better than forecast**
  - **Quarterly income available for distribution 9.6% above forecast**
    - rental revenue stable
    - cost savings boosted result
    - lower interest costs
  - **Hong Kong economy rebounding**
    - retail sales recovering
  - **Mall occupancies set to rise**
    - rental increases could slowly filter through
    - recent leasings encouraging
  - **Evaluating several potential acquisitions**

# Financial highlights

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# Trust income

## ❖ Income available for distribution 9.6% above forecast<sup>1</sup>

### Fortune REIT summary results<sup>1</sup>

	Actual (HK\$'000)	Forecast <sup>2</sup> (HK\$'000)	Var (%)
Gross revenue	39,169	39,044	0.3
Property operating costs	(11,593)	(12,535)	-7.5
Interest on borrowings	(2,565)	(3,705)	-30.8
Profit before tax	25,011	22,804	9.7
Hong Kong tax	(4,414)	(3,991)	10.6
Net profit of property cos	20,597	18,813	9.5
Net profit of trust <sup>3</sup>	20,195	17,506	15.4
<b>Income available for dist'n</b>	<b>20,339</b>	<b>18,565</b>	<b>9.6</b>

- Rental income in line
- Costs lower than forecast
  - cost-to-revenue currently at 30%
  - long term target is 25%
- Interest cost lower

Source: ARA Singapore ("ARAS")

Notes:

1. For the 49-day period from 13 Aug - 30 Sep 2003
2. Based on the same assumptions stated in the Prospectus dated 28 Jul 2003
3. Trust expenses included the Manager's base fee, trustee fees, and admin fees

# Distribution income

## ❖ Tax-exempt distribution yield of 6.78% achieved<sup>1</sup>

### Fortune REIT distribution income<sup>2</sup>

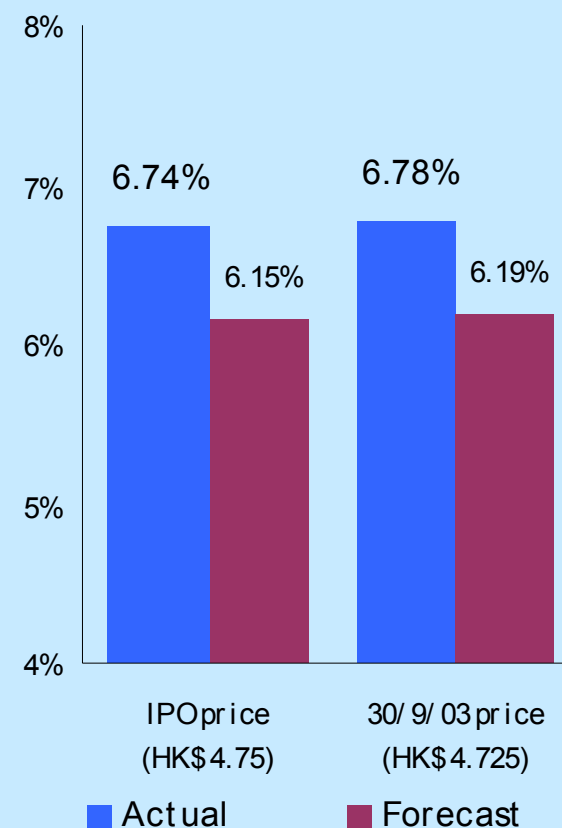
	Actual	F'cast <sup>3</sup>	Var
Distribution per unit ("DPU")			
- Sep quarter (HK\$)	0.0430	0.0392	9.6%
- annualised (HK\$)	0.3203	0.2920	9.6%
Distribution yield (tax-exempt) <sup>4</sup>			
- based on IPO price <sup>5</sup>	6.74%	6.15%	9.6%
- based on 30/9/03 price <sup>1</sup>	6.78%	6.19%	9.6%

Source: ARAS

Notes:

1. Closing price on 30 Sep 2003 was HK\$4.725
2. For the 49-day period from 13 Aug - 30 Sep 2003. Fortune REIT's policy is to distribute its net tax-exempt income to unitholders semi-annually (for the half years ending in June and December).
3. Based on the assumptions stated in the Prospectus dated 28 Jul 2003
4. Tax-exempt, annualised
5. IPO price was HK\$4.75

### Distribution yield (tax-exempt)





# Distribution yield

❖ Pre-tax yield of 8.25% is highest of any Asian REIT (ex-Australia)

## Fortune REIT distribution yields

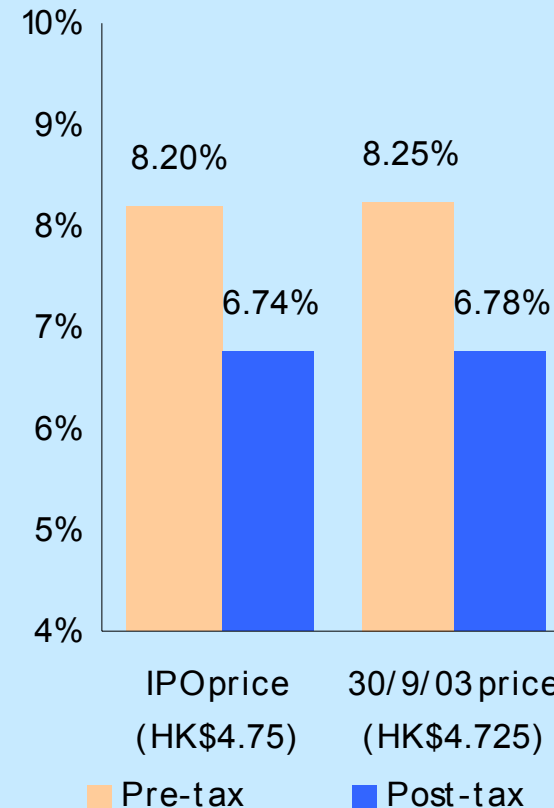
	Actual
Based on IPO price <sup>1</sup>	
- pre-tax yield <sup>2</sup>	8.20%
- tax-exempt yield <sup>3</sup>	6.74%
Based on 30/9/03 price <sup>4</sup>	
- pre-tax yield	<b>8.25%</b>
- tax-exempt yield	<b>6.78%</b>

Source: ARAS

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 will be 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 30 Sep 2003 was HK\$4.725

## Distribution yield



# Debt servicing and management

## ❖ Debt servicing below forecast, current gearing comfortable

### Fortune REIT interest expense

	Actual (HK\$m)	F'cast <sup>1</sup> (HK\$m)	Var (HK\$m)
Int. expense	2.6	3.7	-1.1
Avg int. rate <sup>2</sup>	2.15%	3.00%	85 bps

Source: ARAS

Notes:

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

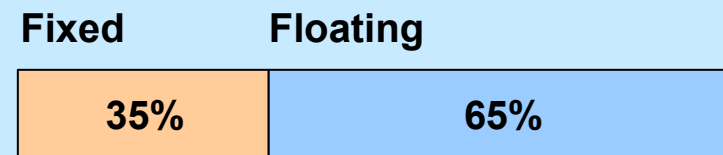
### Fortune REIT debt

	At 30/9/03 (HK\$m)	Limit (HK\$m)	Available (HK\$m)
Term loan	900	900	-
Revolving loan	90	200	110
<b>Total</b>	<b>990</b>	<b>1,100</b>	<b>110</b>

Source: ARAS

- Interest HK\$1.1m below forecast
- Spare HK\$110m in borrowings
- 35% of debt now fixed  
– target is 50%

### Debt profile (current)



# Balance sheet

❖ NAV per unit increased **1.3%**, gearing at **30%**

## Fortune REIT balance sheet

	30 Sep 03 (HK\$m)	31 Dec 02 (HK\$m) <sup>1</sup>	Ch (%)
Total assets	3,321	3,198	3.8
Total liabilities	(1,157)	(1,069)	8.2
Net assets	2,164	2,129	1.6
<b>NAV per unit<sup>2</sup> (HK\$)</b>	<b>4.87</b>	<b>4.81</b>	1.3
LT debt	(990)	(990)	-
Debt-to-asset <sup>3</sup>	30%	31%	

Source: ARAS

Notes:

1. Pro forma as at 31 Dec 2002, from the Prospectus dated 28 Jul 2003
2. Net asset value excludes negative goodwill
3. Total debt to Deposited Property

- **Assets rose due to**
  - rental income
  - lower issuance costs
- **Liabilities rose due to**
  - issuance costs accrued

# Hong Kong economy

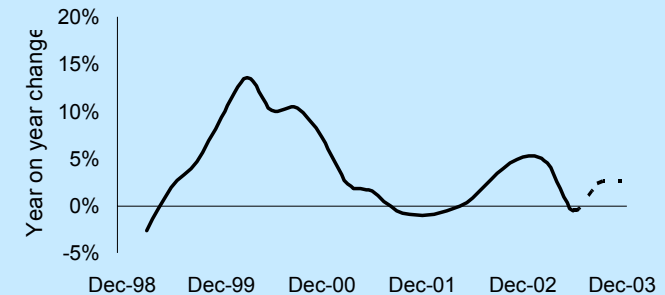
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# Economy growth

## ❖ Significant turnaround in sentiment to lift growth

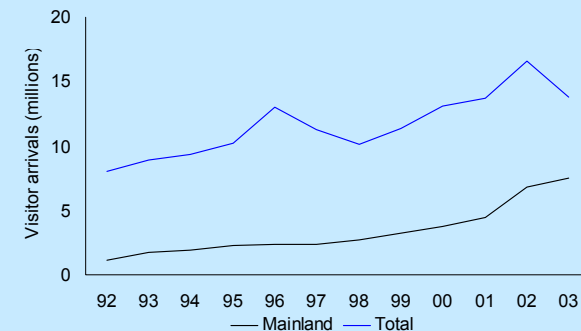
- **HK govt. expects economy to grow 3% in 2003**
  - deflation easing; -3.2% in Sep 03
  - strong HK export sector (with factories in China)
  - port re-export business on uptrend
  - tourist arrivals rose 8% in Sep 03
- **Positive impact from China**
  - expected positive impact of CEPA
  - tourist arrival restrictions lifted
  - Chinese tourist arrivals up 20% in first nine months

## Hong Kong GDP growth



Source: Bloomberg, Hong Kong University forecasts

## Mainland tourist arrivals in HK



Source: Bloomberg, HK Tourism Board

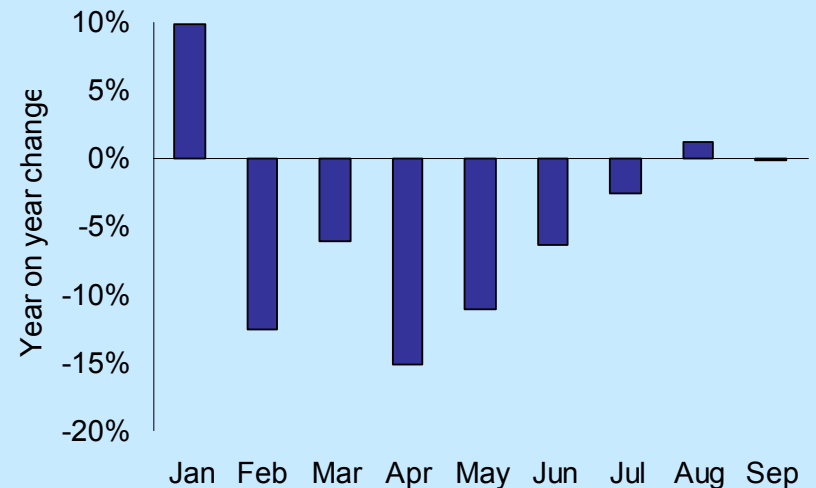
Note: 2003 is annualisation of first 9 months. The actual will be higher if avg. of final 3 months exceeds avg. of first 9 months

# Retail sales

## ❖ Rise in consumer confidence driving retail sales recovery

- **Consumer confidence rising**
  - stockmarket has rallied
  - unemployment fell to 8.0% from 8.6% record high in Jul
- **Retail sales seem to be recovering**
  - up 1.2% in Aug from year ago, after six consecutive months of decline
  - across-the-board recovery in various retail categories
  - flat in Sep

## Hong Kong retail sales (nominal)



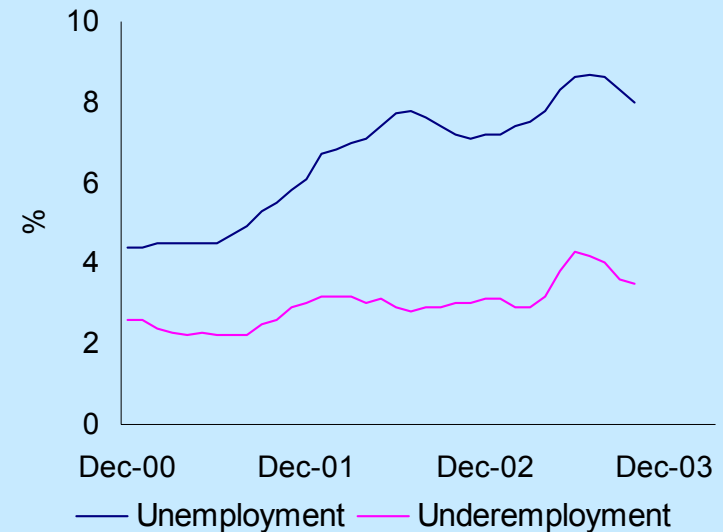
Source: Census and Statistics Dept

# Main risk

## ❖ Optimism balanced by unemployment concerns

- Unemployment may have peaked
- But remains a dampener
  - still high at 8.0%
  - jobs growth usually lags economic recovery
  - weak employment prospects could hold back consumption growth

### Hong Kong labour market



Source: Census and Statistics Dept

# Asset performance

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# Malls

## Metropolis Mall



## Ma On Shan Plaza



## Smartland



## Household Center



## Jubilee Court



# Occupancy

## ❖ Portfolio occupancy has improved by 160 bps since Mar 2003

### Fortune REIT occupancy profile

	At 30/9/03
No. of tenants	384
Portfolio occupancy (%)	83.4

### Committed occupancy (%)

	Jan - Mar 2003 avg	As at 30/09/03
Metropolis Mall	53.5	59.1
Ma On Shan Plaza	94.3	92.4
Household Center	95.6	97.7
Smartland	95.2	96.0
Jubilee Court	96.9	97.3
<b>Portfolio</b>	<b>81.8</b>	<b>83.4</b>

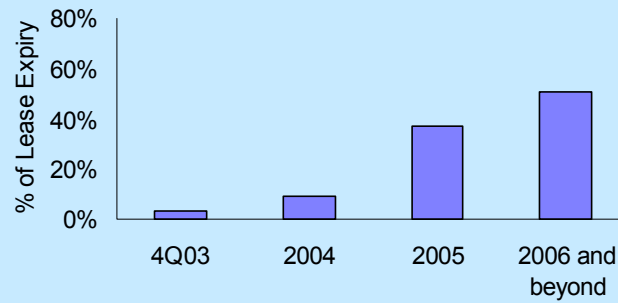
Source: ARAS, Prospectus dated 28 Jul 2003

- **Metropolis**
  - increased leasing interest and higher occupancy
  - targeting China tourist trades
- **Ma On Shan Plaza**
  - stronger leasing interest as KCRC station nears completion
- **Others**
  - relatively stable occupancies around mid-90%
  - some renewals/new lettings

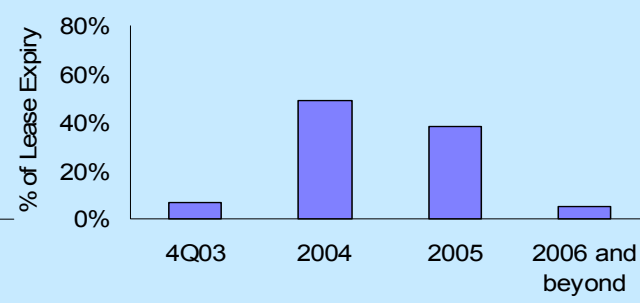
# Expiry profile of portfolio

❖ Well spread out expiry profile, 95% of income secured for rest of 2003

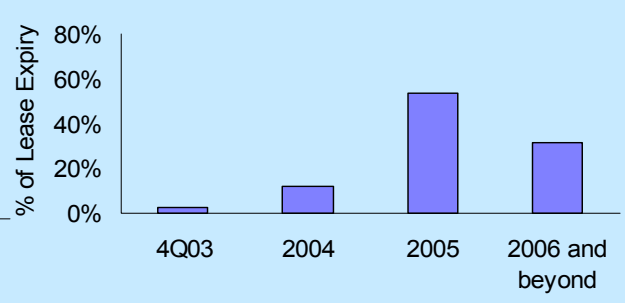
**Metropolis Mall**



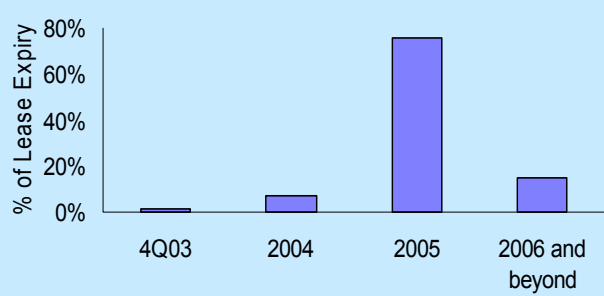
**Ma On Shan Plaza**



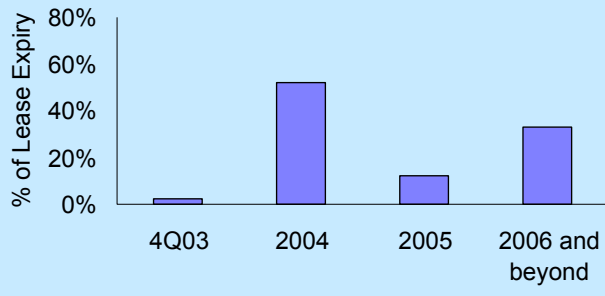
**Smartland**



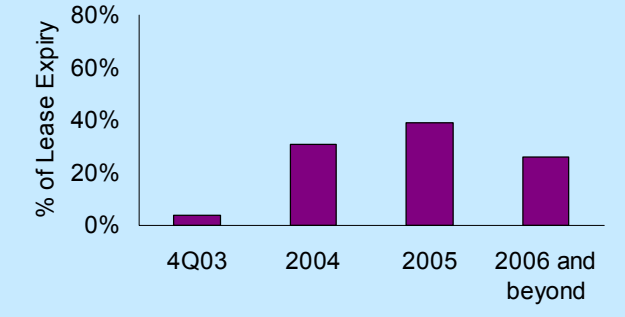
**Household Center**



**Jubilee Court**



**Portfolio**

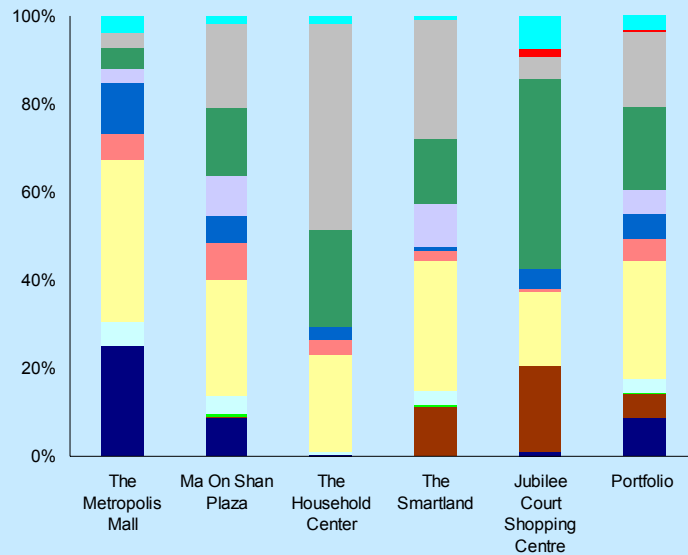


Source: ARAS

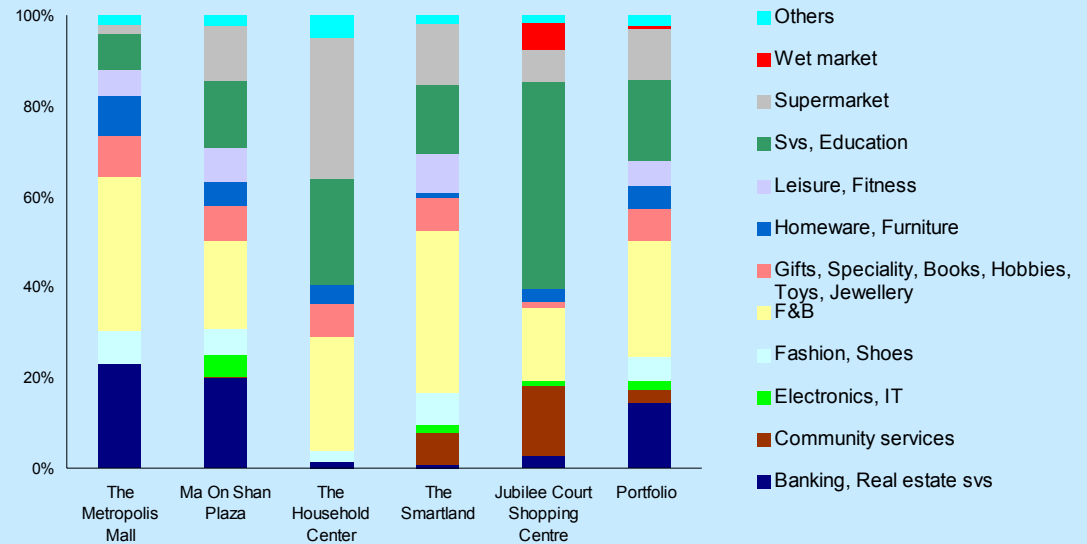
# Tenant trade mix

❖ Fortune REIT's portfolio is occupied by diversified tenant base

By gross lettable area



By base rental & other income



Source: ARAS

# Rentals

## ❖ Mall rentals saw marginal increase, but occupancy rose

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

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#### Mar 2003

- avg passing rent (HK\$) <sup>1</sup>	14.76
- total occupied area (sf)	849,534

#### Sep 2003

- avg passing rent (HK\$)	14.79
- total occupied area (sf)	866,188

#### Change

- avg passing rent	0.2%
- total occupied area	2.0%

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Source: ARAS, Prospectus dated 28 Jul 2003

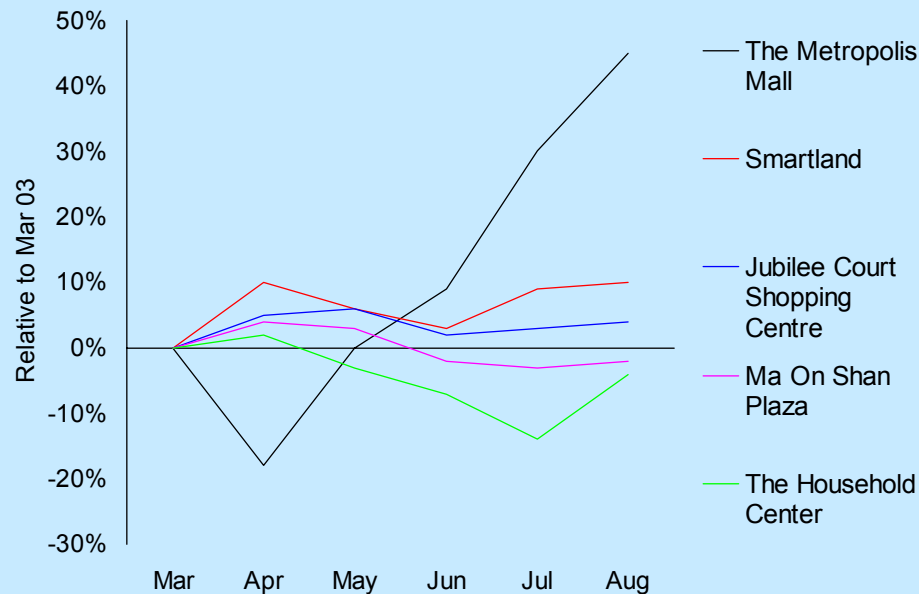
Notes:

1. Base rental and other income (exc charge-outs)

# Turnover rents

## ❖ Sales turnover showed increase in 3Q 2003

### Sales of tenants on turnover rent<sup>1</sup>



Source: ARAS

Notes:

1. There are 30 tenants that are on turnover rental structures

- **Metropolis Mall: strong rise due to**
  - Kopitiam new tenant
  - higher store sales
- **Other malls: stable turnover**
- **Turnover rents are “either or”**
  - turnover rents apply in totality *only if* turnover exceeds base

# Strategy

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# Strategy

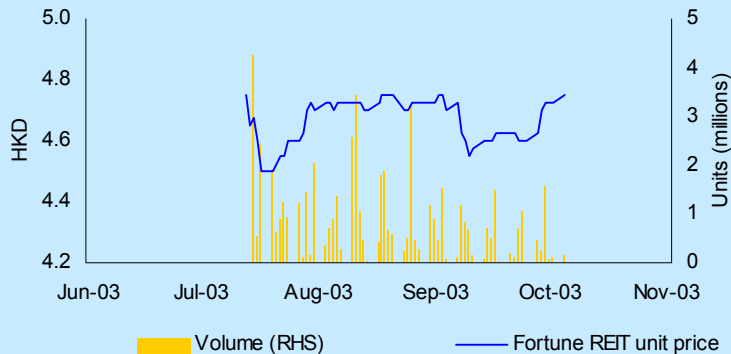
- ❖ **ARA expects forecast for 2003 to be comfortably met**
  - **Asset enhancement**
    - Ma On Shan Plaza: leverage off forthcoming KCRC link
  - **Leasing**
    - Metropolis Mall: securing major tenant with China tourist target
  - **Cost rationalisation**
    - long term target cost-to-revenue of 25%
  - **Acquisitions**
    - total return as well as yield-accretive acquisitions
    - evaluating several currently
  - **Second listing in Hong Kong**
    - legal advisor appointed to assist in process



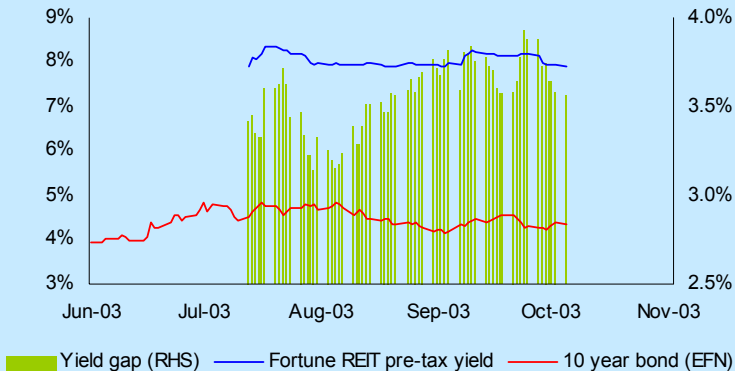
# Unit price action

## ❖ Price affected by trend of rising bond yield

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



### Yield gap<sup>2</sup>



Source: ARAS, Bloomberg

Notes:

1. As at 3/11/03. Volume chart excludes first day of trade
2. Fortune REIT's pre-tax yield is based on assumptions stated in the Prospectus dated 28 Jul 2003

- Monthly liquidity (avg.)
  - 13% of free float since listing
  - 6% of free float since end of IPO market stabilisation (12/09/03)
- Price affected by
  - trend of rising bond yield; pre-tax yield gap relatively stable at around 350 bps
  - rush into high beta stocks

# In sum

- Fortune REIT exceeded forecast by 9.6% in its inaugural quarter
- Hong Kong economy is improving
- Occupancies at Fortune REIT's malls are improving

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