



## Results for the year ended 31 Dec 2004

Investor briefing  
27 Jan 2005

**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 Dec 2004 announced on SGXNET.

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# Summary

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## In brief

- ❖ **DPU exceeded forecast by 6.0%; NAV up 33% to HK\$6.87/unit**
  - **Fortune REIT distribution per unit**
    - 6.0% above forecast for full 2004 year
    - 3.8% higher in 4Q04 than same quarter year ago
  - **NAV per unit up 33% to HK\$6.87**
  - **Hong Kong retail sales growth remains healthy**
  - **Overall occupancy now close to full; focus now is**
    - improving rentals
    - pro-active leasing (inc max. of space use, and reconfiguring to smaller space)
  - **Acquisitions progressing**

# Financial highlights

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# Trust income

## ❖ DPU 6.0% above forecast for 2004 full year

### Fortune REIT results, year ended Dec 2004

	Actual (HK\$'000)	Forecast <sup>1</sup> (HK\$'000)	Var (%)
Revenue	238,092	223,831	6.4
Charge-out collections	70,117	80,965	(13.4)
Property operating costs <sup>2</sup>	(94,495)	(93,599)	1.0
Borrowings costs	(19,475)	(26,925)	(27.7)
Profit before tax	194,239	184,272	5.4
Hong Kong tax	(33,963)	(32,248)	5.3
Net profit of property cos	160,276	152,024	5.4
Net profit of trust <sup>3</sup>	150,083	142,149	5.6
<b>Income available for dist'n</b>	<b>158,756</b>	<b>150,053</b>	<b>5.8</b>
<b>DPU (HK\$)</b>	<b>0.3340</b>	<b>0.3152</b>	<b>6.0</b>

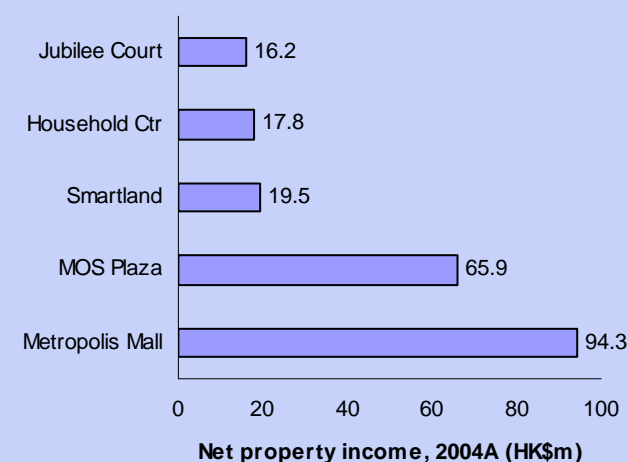
Source: ARA Asset Management (Singapore) Limited ("ARASL")

Notes:

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

- Rental rev. 6.4% above forecast
- Costs 1.0% above forecast
  - cost-to-revenue at 28.5%<sup>4</sup>

### Net property income, 2004A



# Trust income

## ❖ DPU in 4Q04 was 3.8% higher than same quarter last year

### Fortune REIT quarterly results, actual

	4Q 04 (HK\$'000)	4Q 03 (HK\$'000)	Ch (%)
Revenue	64,599	57,305	12.7
Charge-out collections	18,804	16,147	16.5
Property operating costs <sup>1</sup>	(29,259)	(22,333)	31.0
Borrowings costs	(5,232)	(5,285)	(1.0)
Profit before tax	48,912	46,834	4.4
Hong Kong tax	(8,535)	(8,119)	5.1
Net profit of property cos	40,377	38,715	4.3
Net profit of trust <sup>2</sup>	37,975	36,835	3.1
<b>Income available for dist'n</b>	<b>40,213</b>	<b>38,574</b>	<b>4.2</b>
<b>DPU (HK\$)</b>	<b>0.0845</b>	<b>0.0814</b>	<b>3.8</b>

- Rental revenue **12.7% higher**
  - due to higher occupancy and rentals
  - ex-Metropolis, rental rev. up 7.9%
- Higher costs
  - due to Metropolis food court operator change

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

Notes:

1. Includes Manager's performance fee
2. Trust expenses include the Manager's base fee, trustee fees, and admin fees



# Distribution yield

## ❖ Tax-exempt yield 5.3%; pre-tax yield 6.4%

### FRT distribution, year ended Dec 2004<sup>1</sup>

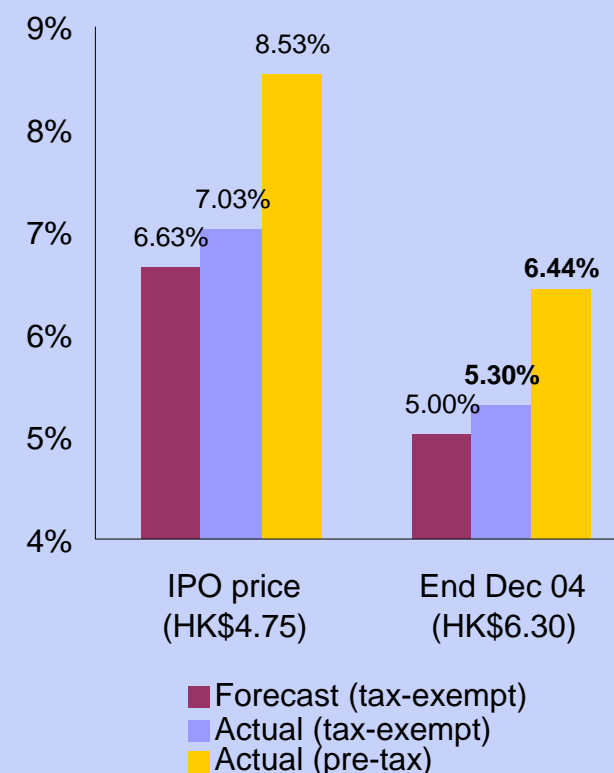
	Tax-exempt		
	F'cast <sup>2</sup>	Actual	Pre-tax <sup>5</sup>
<b>DPU<sup>3</sup></b>			
- YE Dec 04 (HK\$)	0.3152	0.3340	0.4055
<b>Distribution yield, based on</b>			
- IPO price <sup>4</sup>	6.63%	7.03%	8.53%
- 31/12/04 price <sup>4</sup>	5.00%	<b>5.30%</b>	<b>6.44%</b>

Source: ARASL

Notes:

1. Fortune REIT pays tax-exempt distributions semi-annually (for the half years ending Jun and Dec)
2. Based on the assumptions stated in the Prospectus dated 28 Jul 2003
3. Based on 475.7m units issued
4. IPO price = HK\$4.75, 31/12/04 price = HK\$6.30
5. Before HK income taxes. This figure is shown solely to illustrate the yield before the impact of HK taxes on the Property Cos. It does not imply investors are eligible for any dividend tax credits

### Distribution yield



# Debt management

## ❖ Debt servicing below forecast, now 51% fixed

### Fortune REIT interest expense, YE Dec 04

	Actual	F'cast <sup>1</sup>	Var
Borrowing costs (HK\$m)	19.5	26.9	(7.4)
Avg int. rate <sup>2</sup>	2.02%	3.00%	(98) bps

Source: ARASL

Notes:

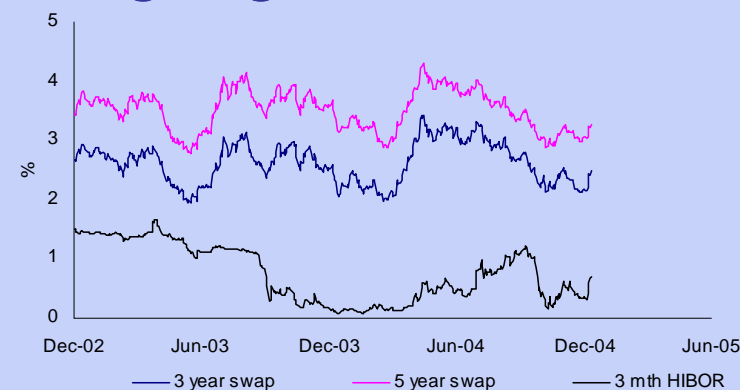
1. Based on the assumptions in the Prospectus dated 28 Jul 2003
2. Weighted by the relative amounts of fixed and floating debt

### Fortune REIT debt profile

	Term	30/9/04 (HK\$m)	31/12/04 (HK\$m)	% of total
Revolving	1M	58	26	3
Floating	3M	430	430	46
Fixed	2Y - 3Y	470	470	51
<b>Total</b>		<b>958</b>	<b>926</b>	<b>100</b>

Source: ARASL

### Hong Kong interest rates



Source: Bloomberg

- Interest expense HK\$7.4m below forecast
- 51% of debt now fixed

# Interest rate impact

## ❖ Impact of rate rises likely to be small

### Fortune REIT interest expense scenarios, 2005F

	2004A (HK\$m)	2005F (HK\$m)	Avg. int rate
Borrowing costs	19.5	-	2.02%
Rate rise scenarios for 2005 <sup>1</sup>			
- 50 bps rise <sup>2</sup>	-	21.1	2.22%
- 100 bps rise <sup>3</sup>	-	22.0	2.32%
- 150 bps rise <sup>4</sup>	-	24.2	2.54%
- 200 bps rise <sup>5</sup>	-	24.5	2.57%

Source: ARASL

Notes:

1. Assuming unchanged hedging at 50% of total debt of HK\$950m
2. Assuming two 25 bps rises, in Feb and Aug
3. Assuming four 25 bps rises, in Feb, May, Aug and Nov
4. Assuming three 50 bps rises, in Feb, May and Aug
5. Assuming four 50 bps rises, in Feb, May, Aug and Nov

- Avg. interest cost to remain below 2.6% in worst case scenario

# Balance sheet

## ❖ Book value currently HK\$6.87 per unit

### Fortune REIT balance sheet

	31/12/03 (HK\$m)	31/12/04 (HK\$m)	Ch (%)
Investment properties <sup>1</sup>	3,389	4,184	23.5
Total assets	3,379	4,187	23.9
Total liabilities	(1,062)	(1,053)	(0.8)
Net assets	2,317	3,134	35.3
NAV per unit (HK\$)	5.18 <sup>2</sup>	6.87 <sup>3</sup>	32.6
Total debt	(932)	(926)	(0.6)
Gearing (%) <sup>4</sup>	27	22	n.a.

Source: ARASL

Notes:

1. Excludes negative goodwill
2. Includes distributable income of \$0.1243 paid on 28 Feb 04
3. Includes distributable income of \$0.1640 payable on 28 Feb 05
4. Total debt to Deposited Property

- NAV per unit up 33%
  - property valuation rose 23.5%
  - book value per unit is HK\$6.87<sup>3</sup>
  - at unit price of HK\$6.30, discount to NAV is 8.3%
- Gearing at 22%
  - room for another \$540m (35% limit)

# Investment properties

## ❖ Portfolio valuation up 23.5% as a whole

### Fortune REIT property valuation

	Dec 03 (HK\$m)	Dec 04 (HK\$m)	Ch (%)
Metropolis Mall	1,593	1,959	23.0
Ma On Shan Plaza	1,023	1,282	25.3
Smartland	276	346	25.4
Household Center	252	302	19.8
Jubilee Court	245	295	20.4
<b>Total</b>	<b>3,389</b>	<b>4,184</b>	<b>23.5</b>

Source: ARASL, Chesterton Petty Ltd

- Portfolio valuation up **23.5%**
  - based on valuation by Chesterton Petty
- Strong rises at **Smartland and MOSP**

# Distribution

## ❖ FRT units trade ex-distribution on 2 Feb 05

### Distribution payment, 2H04

Amount (HK\$/unit)	0.1640
Ex date	2 Feb 05
Books closure	4 Feb 05
Currency election <sup>1</sup>	18 Feb 05
Payment	28 Feb 05

Source: ARASL

Note:

1. Unitholders can choose to have the distribution paid in HKD or SGD. By default, the payment is made in SGD

# Hong Kong economy

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# Economic growth

## ❖ Hong Kong's economy remains strong; easing in 2005 expected

### Hong Kong economic indicators (%)

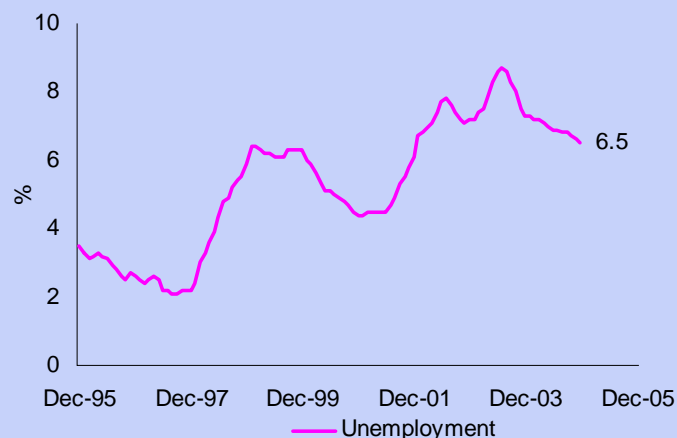
	2002	2003	2004E	2005F
Real GDP	1.9	3.2	7.3	4.6
CPI	-1.6	-1.9	-0.2	1.5
Nominal GDP	0.3	1.3	7.1	6.1
Retail sales (nom)	-4.1	-2.3	11.0 <sup>1</sup>	n.a.

Source: Consensus Economics (Sep 04), Bloomberg

Note:

1. Eleven months to Nov over the same period in 2003

### Hong Kong unemployment



Source: Bloomberg

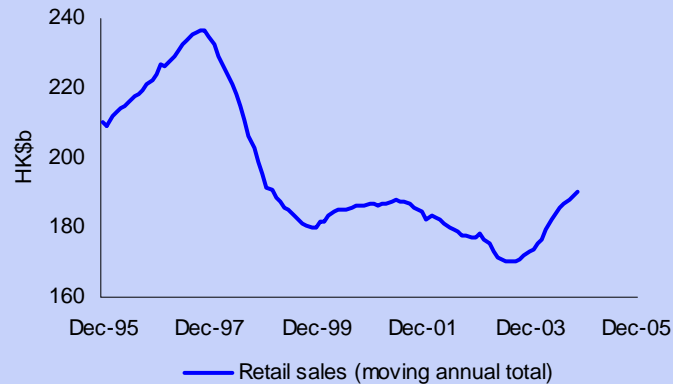
- Economy strong, easing in 2005 expected
  - tourist arrivals likely exceeded 20m in 2004
    - more than 10m from Mainland
    - further growth in 2005 expected
- Unemployment rate continues to decline
  - 6.5% at end Dec 04
  - decrease mainly in retail trades and F&B
  - consumer confidence improving



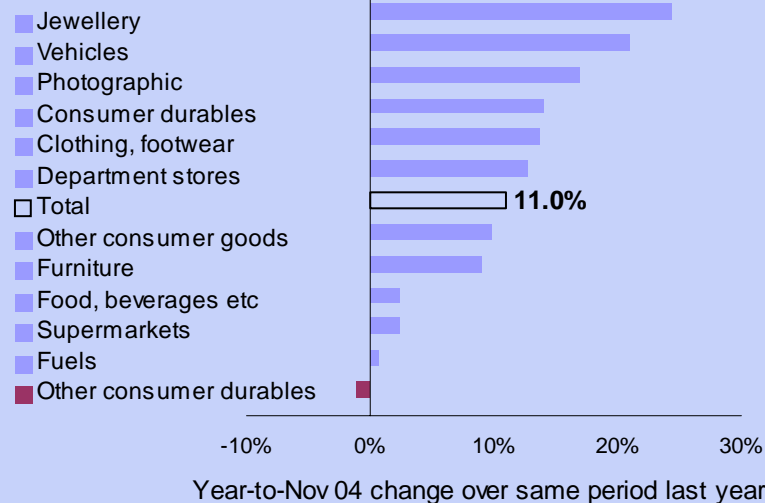
# Retail sales

## ❖ Retail sales increase is broad-based

### Hong Kong retail sales (nominal)



### HK retail sales by category



Source: Bloomberg

- Consumer sentiment lifted by
  - falling unemployment
  - rising property market
- Across the board increase in retail sales
  - +11% in 11M 2004 over 11M 2003
  - luxury goods sales still strong
  - consumer durables growth reflects consumer confidence

# Asset performance

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# Ma On Shan Plaza

## ❖ Almost fully-occupied after opening of KCRC station

- KCRC station and link to mall
  - opened (21 Dec 04)
- Shopper traffic expected to rise further
  - 4Q04 vs 4Q03: +41%
- Occupancy now at 99%
  - experiencing more leasing enquiries
- Enhancement work in 2005
  - lighting and signage improvements
  - food court renovation

KCRC station-MOS Plaza pedestrian link

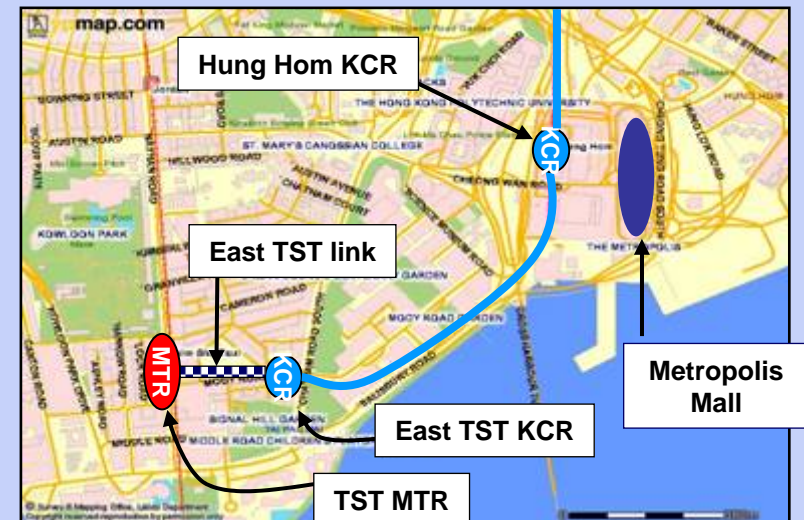


# The Metropolis Mall

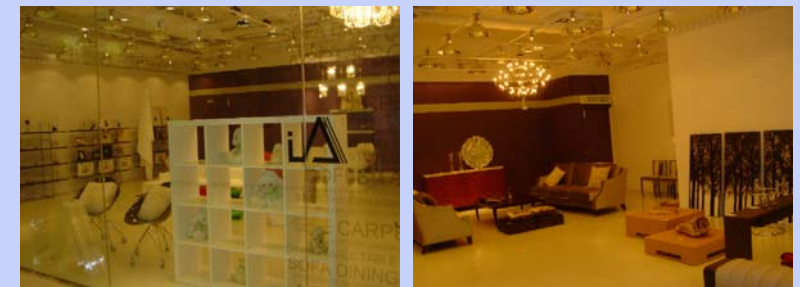
## ❖ Shopper traffic rising on occupancy, promotions and rail link

- Shopper traffic increasing
  - 4Q04 vs 4Q03: +31%
- KCRC East Tsim Sha Tsui pedestrian link
  - opened (late Oct 04)
- Actual occupancy now at 87.8%
  - Lifestyle Concept Store roll-out continues
- Promotional events continuing

### East TST pedestrian link



### Lifestyle Concept Store



# Enhancing value of the malls

## ❖ Value creation: continuous improvements to enhance revenue

### Pro-active leasing Metropolis Mall



### Ma On Shan Plaza



### Maximising atrium space use Jubilee Court Shopping Centre



### Smartland



# Portfolio occupancy

## ❖ Portfolio occupancy rose to 95%

### Actual occupancy (%)

	Dec 03	Sep 04	Dec 04
Metropolis Mall	59.0	72.7	87.8
Ma On Shan Plaza	95.7	96.9	98.9
Smartland	95.6	97.5	98.8
Household Center	97.3	96.5	98.2
Jubilee Court	98.1	92.9	96.7
<b>Portfolio</b>	<b>84.4</b>	<b>88.4</b>	<b>94.9</b>
No. of tenants	390	438	438

Source: ARASL

## • Portfolio almost full

- Ma On Shan Plaza and Smartland at 99%
- Household and Jubilee above 96%

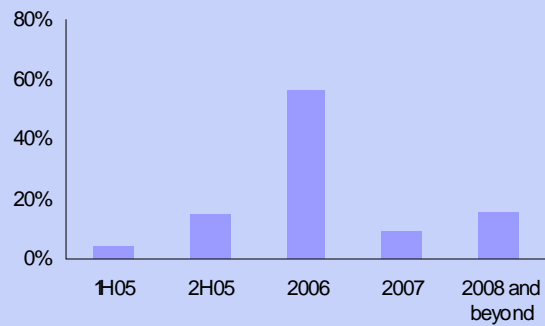
## • Capex in 2005

- Ma On Shan Plaza: lighting & signage improvements, food court renovation
- Smartland: lighting improvements
- Jubilee: changing of chillers

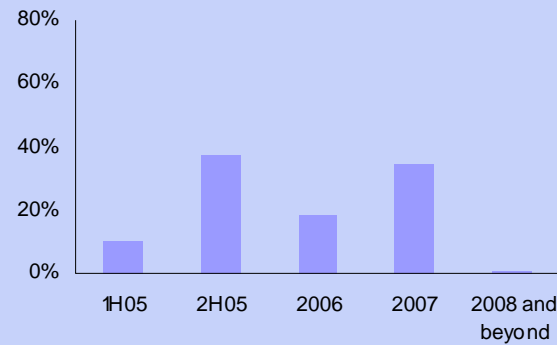
# Portfolio expiry profile

❖ Well spread out expiry profile, though more in second half 2005

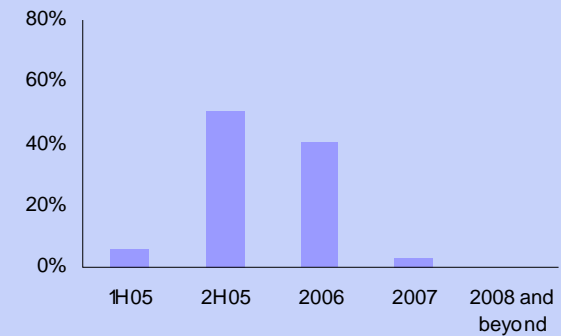
**Metropolis Mall**



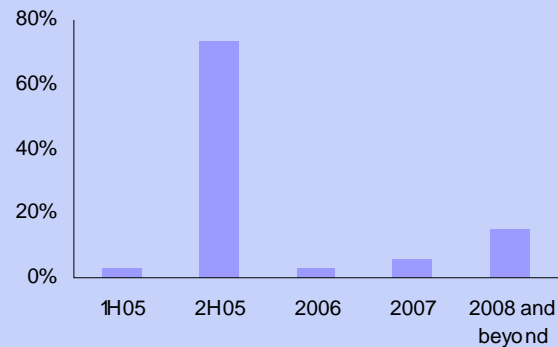
**Ma On Shan Plaza**



**Smartland**

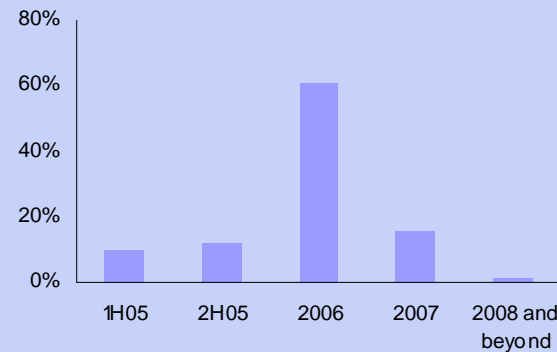


**Household Center**

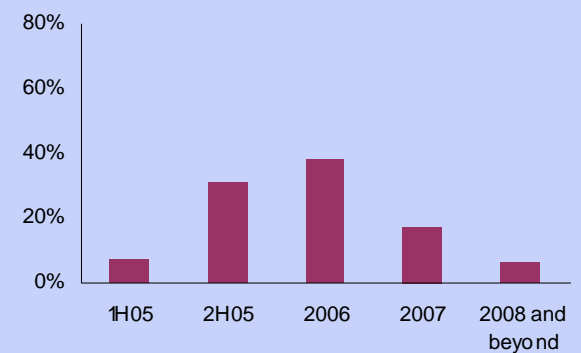


Source: ARASL

**Jubilee Court**



**Portfolio**



# Tenant trade mix

## ❖ Trade mix remains diversified

### By Gross Rentable Area (%)

	Metro- polis Mall	Ma On Shan Plaza	Smart- land	House- hold Center	Jubilee Court	Port- folio
Banking & Real Estate Services	22.4	8.0	1.3	0.5	2.6	10.3
Community Services	5.3	0.0	10.5	0.0	18.8	6.1
Electronics, IT	0.6	4.2	0.7	0.4	0.3	1.7
Fashion & Shoes	3.8	4.9	3.8	0.7	0.0	3.2
Food & Beverage, Food Court	26.9	26.6	28.3	21.8	16.2	24.8
Gifts & Specialty, Books, Hobbies, Toys, Jewellery	4.0	5.9	3.3	2.8	4.0	4.4
Homeware & Home Furnishings	13.7	5.4	0.5	0.3	0.0	6.2
Leisure & Entertainment, Sports & Fitness	0.9	5.4	8.4	0.0	0.0	2.9
Others	2.7	1.8	1.4	0.9	4.7	2.5
Services, Education	5.5	18.4	14.6	25.8	44.1	18.7
Supermarket	1.9	18.2	26.0	44.9	4.8	14.0
Wet Markets	0.0	0.0	0.0	0.0	1.2	0.2
Vacant	12.2	1.1	1.2	1.8	3.3	5.1
<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

## ❖ Avg. passing rental up 11% since Dec 03

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

	Avg. passing rental (HK\$ psf/mth)	Qtrly ch. (%)	Actual occupancy (%)
Dec 2003	15.01	1.5	83.8
Mar 2004	15.19	1.2	83.2
Jun 2004	16.73	10.1	90.4
Sep 2004	16.65	- 0.5	88.4
<b>Dec 2004</b>	<b>16.68</b>	<b>0.2</b>	<b>94.9</b>

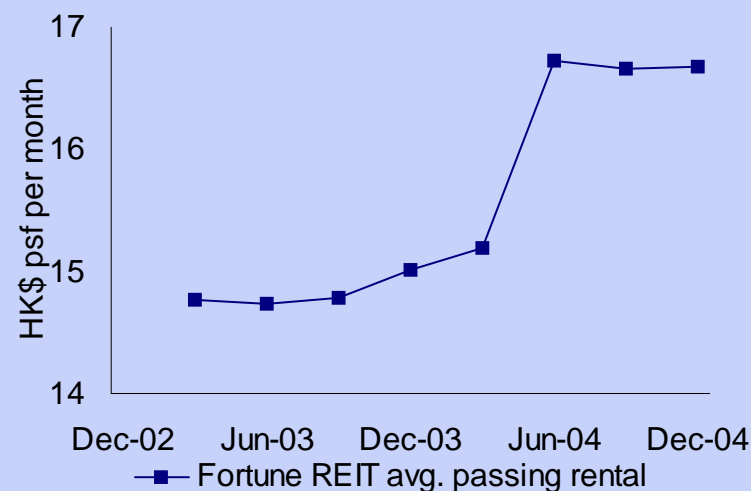
Source: ARASL

Notes:

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

- **Weighted avg rental reversion of lease renewals negotiated in 2004 full year up 3.7%**

### Portfolio passing rents



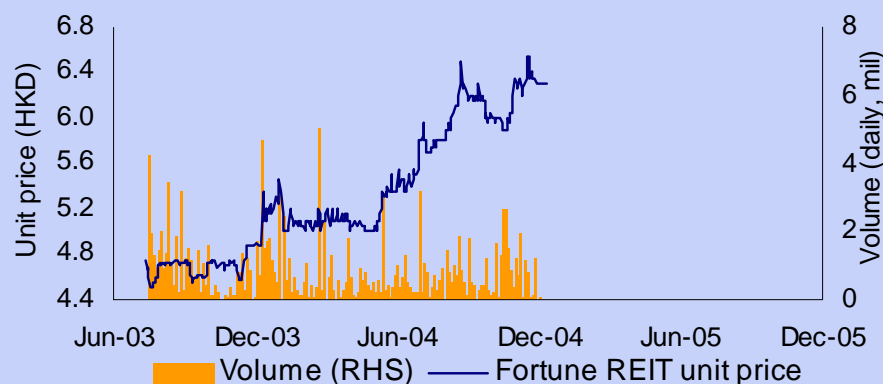
Source: ARASL, Prospectus dated 28 Jul 2003

# Strategy

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# Unit activity

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

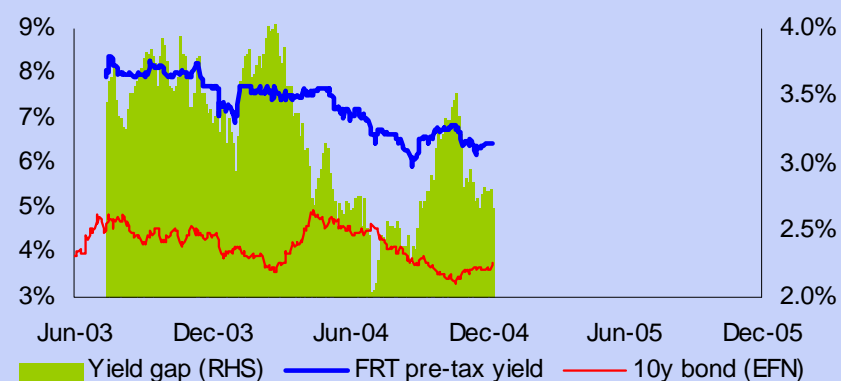


Source: ARASL, Bloomberg

Notes:

- As at 6/1/05. Volume chart excludes first day of trade

## Yield gap<sup>1</sup>



Source: ARASL, Bloomberg

Notes:

- As at 6/1/05.

## Relative price performance

	Dec 03	Dec 04	% ch
Fortune REIT (HK\$)	4.90	6.30	28.6
Hang Seng Index	12,576	14,230	13.2
Straits Times Index	1,765	2,066	17.1

Source: ARASL, Bloomberg

- FRT strongly outperformed broad indices in 2004**

# Strategy and summary

- ❖ **Focus on further revenue improvements; acquisitions in progress**
  - Overall occupancy now close to full
  - Focus on improving revenue through
    - raising rentals (with improving macro environment)
    - pro-active leasing and reconfiguring of space into smaller units at higher rents
    - maximisation of space use
  - **Metropolis Mall shopper traffic increasing**
    - occupancy now at 88% with shopper traffic increasing strongly
    - intention to step up leasing of remaining 16%
  - **Cost rationalisation to continue**
    - long term target: cost-to-revenue of 25%
  - **Acquisitions**
    - negotiations in progress

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