



## Results for the third quarter ended 30 Sep 2006

6 November 2006

**ARA** Asset Management (Singapore) Limited

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# Contents

- Summary
- Financial Highlights
- Hong Kong Economy
- Asset Performance
- Ongoing Strategy

# Summary

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# Summary

- ❖ **Tax-exempt yield of 5.8% achieved for YTD Sep 06**
- **Total revenue and NPI grew 53.7% and 53.8% in YTD Sep 06 vs YTD Sep 05**
- **Distribution per unit (“DPU”) grew 2.3% in YTD Sep 06 vs YTD Sep 05**
- **NAV per unit at HK\$7.59; discount to NAV of 22.3%**
- **Gearing at 26.8%; 78.5% of debt fixed at various maturities**
- **Strong rental reversions with high tenant retention and occupancy rate**
  - **weighted average rental reversions of the portfolio YTD is 8.2% for renewals**
  - **tenant retention YTD is 74.9%**
  - **portfolio occupancy improved to 95.5%**

# Financial Highlights

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# Trust Income

## ❖ Revenue rose by 3.6% in 3Q06 vs 3Q05

### Fortune REIT results, 3Q06 v 3Q05

	3Q06 (HK\$'000)	3Q05 (HK\$'000)	Var (%)
<b>Total revenue</b>	<b>153,213</b>	<b>147,849</b>	<b>3.6</b>
Property operating expenses	(42,928)	(41,577)	3.2
Manager's performance fee	(3,308)	(3,189)	3.7
<b>Net property income ("NPI")</b>	<b>106,977</b>	<b>103,083</b>	<b>3.8</b>
Borrowings costs	(28,682)	(22,455)	27.7
Profit before tax	78,295	80,628	(2.9)
Hong Kong tax	(14,194)	(14,078)	0.8
Net profit of property companies	64,101	66,550	(3.7)
<b>Income available for distribution<sup>1</sup></b>	<b>66,742</b>	<b>66,137</b>	<b>0.9</b>
<b>DPU (HK\$)</b>	<b>0.08278</b>	<b>0.08247</b>	<b>0.4</b>

Source: ARASL

Notes:

1. For 3Q06, income available for distribution includes a gain on disposal of carpark lots in City One Shatin of HK\$3mil.
2. Before Manager's performance fee

- **3.6% increase in Total Revenue and 3.8% increase in Net Property Income**
  - led by Ma On Shan Plaza, Waldorf Garden and City One Shatin
- **Cost to revenue ratio<sup>2</sup> improved by 0.4% for 3Q06 vs 3Q05**

# Trust Income

## ❖ DPU rose by 2.3% in YTD Sep 06 vs YTD Sep 05

### Fortune REIT results, YTD Sep 06 vs YTD Sep 05

	Sep 06 (HK\$'000)	Sep 05 <sup>2</sup> (HK\$'000)	Var (%)
<b>Total revenue</b>	<b>463,940</b>	<b>301,898</b>	<b>53.7</b>
Property operating expenses	(123,576)	(80,615)	53.3
Manager's performance fee	(10,211)	(6,639)	53.8
<b>Net property income ("NPI")</b>	<b>330,153</b>	<b>214,644</b>	<b>53.8</b>
Borrowings costs	(79,729)	(33,666)	136.8
Profit before tax	250,424	180,978	38.4
Hong Kong tax	(44,310)	(31,619)	40.1
Net profit of property companies	206,114	149,359	38.0
<b>Income available for distribution<sup>1</sup></b>	<b>207,879</b>	<b>148,431</b>	<b>40.1</b>
<b>DPU (HK\$)</b>	<b>0.2578</b>	<b>0.2521</b>	<b>2.3</b>

- **53.7% increase in Total Revenue**
- **53.8% increase in Net Property Income**
- **2.3% growth in DPU despite rise in interest costs**

Source: ARASL

Notes:

1. For Sep 06, income available for distribution includes a gain on disposal of carpark lots in City One Shatin of HK\$3mil.
2. Includes results of the 6 newly acquired properties from 28 Jun 2005



# Distribution Yield

## ❖ Tax-exempt yield of 5.8% achieved

Fortune REIT distribution, YTD Sep 2006<sup>1</sup>

	Tax-exempt Actual	Actual Pre-tax <sup>2</sup>
<b>DPU<sup>3</sup></b>		
- 9 months ended 30 Sep 2006 (HK\$)	0.2578	0.3128
<b>Distribution yield, based on</b>		
- 30/9/06 price (HK\$5.90)	<b>5.8%</b>	<b>7.1%</b>

Source: ARASL

Notes:

1. Fortune REIT pays tax exempt distributions semi-annually (For the half year ending Jun and Dec)
2. Before HK income taxes. This figure is shown solely to illustrate the yield before the impact of HK taxes on the property companies. It does not imply investors are eligible for any dividend tax credits
3. Based on 806.2m units issued

# Debt Management

## ❖ 78.5% of debt fixed

### Fortune REIT debt profile

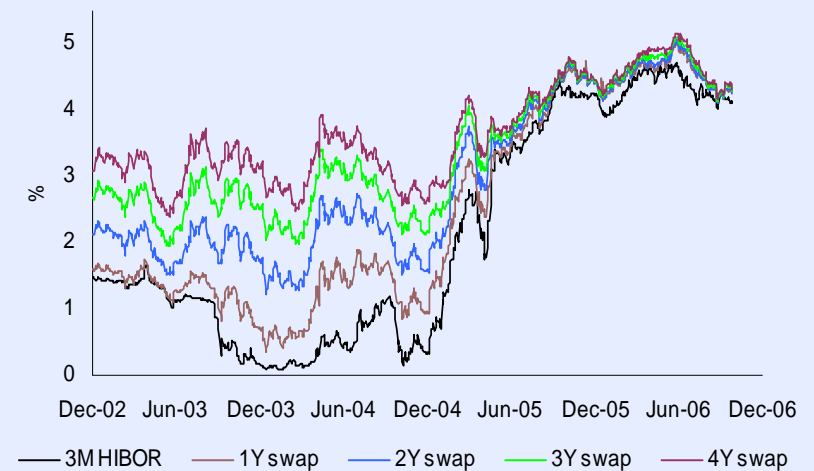
	Term	30/6/06 (HK\$m)	30/9/06 (HK\$m)	% of total
Floating	3M	541	505	21.5
Fixed <sup>1</sup>	1Y - 4Y	1,844	1,844	78.5
<b>Total<sup>2</sup></b>		<b>2,385</b>	<b>2,349</b>	<b>100.0</b>

Source: ARASL

Notes:

1. Interest was hedged in Jul 05 and Jun 06
2. Includes the debt front end fee

### Hong Kong interest rates



Source: Bloomberg

- **Weighted average interest cost of 4.38% achieved**
- **78.5% debt fixed at various maturities between 1 to 4 years**
- **Repayment of term loan of HK\$36.3mil from proceeds of car park sales**

# Balance Sheet

## ❖ Book value currently at HK\$7.59 per unit

### Fortune REIT balance sheet

	30/6/06 (HK\$m)	30/9/06 (HK\$m)	Change (%)
Investment properties <sup>1,2</sup>	8,594	8,526	(0.8)
Total assets	8,910	8,773	(1.5)
Total liabilities	(2,689)	(2,665)	(0.9)
Net assets	6,221	6,108	(1.8)
NAV per unit (HK\$) <sup>3</sup>	7.70	7.59	(1.4)
Total debt <sup>4</sup>	(2,385)	(2,349)	(1.5)
Gearing (%) <sup>5</sup>	26.8	26.8	n.a.

Source: ARASL

Notes:

1. Valuation as at 31 Dec 05 by Savills Valuation and Professional Services Ltd
2. This was adjusted due to the sale of City One Shatin carparks in 3Q06
3. NAV per unit is calculated based on net assets of the Group excluding hedging reserve.
4. This includes the debt front end fee
5. Total debt to total assets

- **Discount to NAV of 22.3%**
  - based on unit price of HK\$5.90 (30 Sep 06)
  - current NAV per unit is HK\$7.59
  - NAV as at 30 Jun 06 includes 1H06 distribution of HK\$0.1753 per unit distributed on 28 Aug 06
- **Gearing remains low at 26.8%**

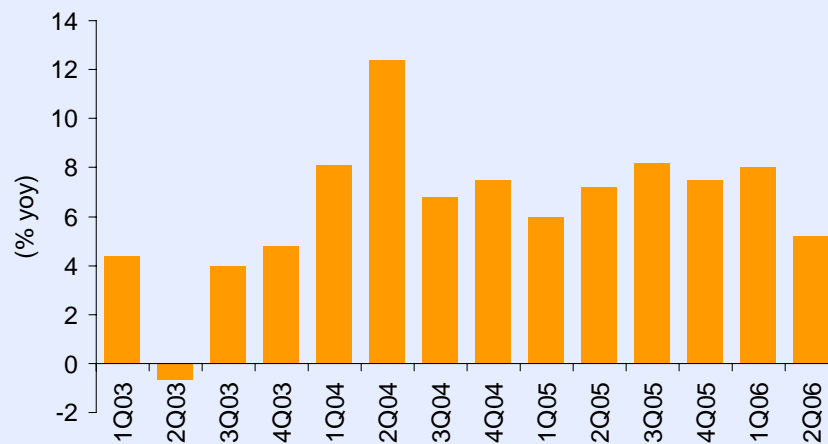
# Hong Kong Economy

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# Economic Growth

## ❖ Growth continues

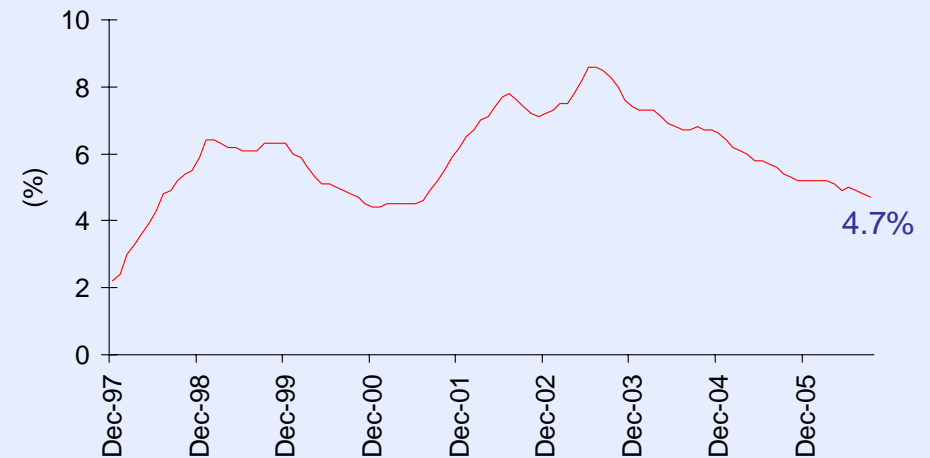
### GDP Growth (at constant market prices)



Source: Census & Statistics Department

- Strong GDP growth of 5.2% y-o-y in 2Q06 following 8.0% in 1Q06
- Domestic demand provide the key driver of economic growth
  - Private Consumption Expenditure accelerated to a 5.0% y-o-y growth in 2Q06

### Hong Kong unemployment



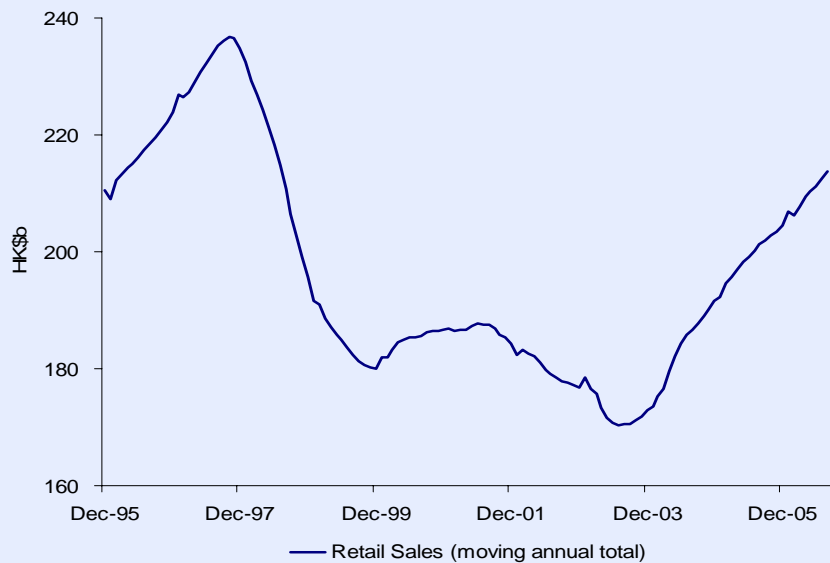
Source: Census & Statistics Department

- Unemployment rate dropped to 5 year low of 4.7% (Sep 06)
- Tourist arrivals up 10.4% Aug 06 YTD v Aug 05 YTD

# Retail Sales

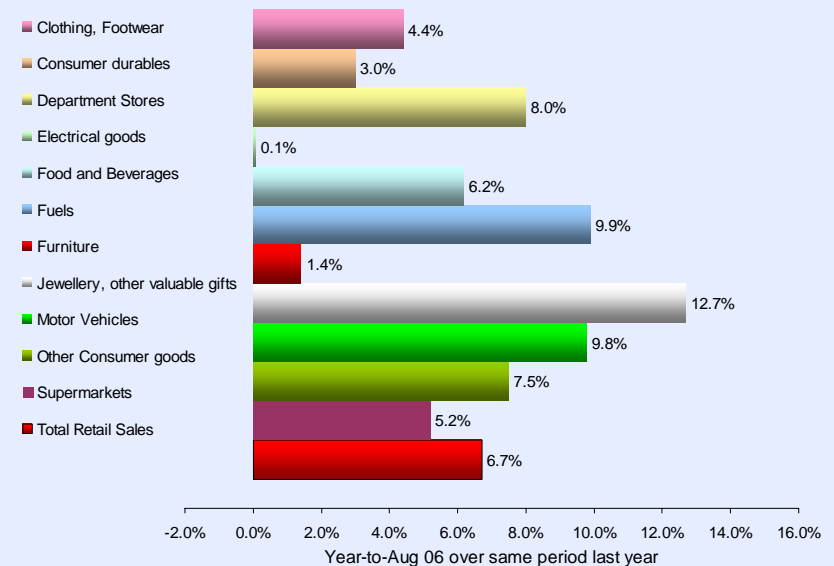
## ❖ Retail sales commands stable growth

### Hong Kong retail sales



Source: Census & Statistics Department

### HK retail sales growth by category



Source: Census & Statistics Department

- **Retail sales up 6.7% in Aug 06 YTD over corresponding period**
  - Benefiting from improvements in labour market conditions and increase in tourist arrivals

# Asset Performance

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# Portfolio Highlights

## ❖ Rental growth stable; Enhancements in progress

- **Strong performance from MOS, COS & Waldorf<sup>1</sup>**
  - Rental reversions for renewals YTD remains strong at 29%, 13% and 12% for MOS, COS and Waldorf respectively
  - Attracting high-yield tenants: Citibank has committed to a lease at MOS at a reversion rate of 200%
- **Repositioning reinforcement in Metropolis Mall**
  - Meeting customer needs : a one stop shop facility
    - New tenant, Eden Marriage Registry, offers on-site wedding solemnisation and wedding planning services
    - Thematic “wedding park” enhancement to Metropolis Mall’s open corridor area on track

Wedding Park – in progress



Footnote: <sup>1</sup> The acronyms MOS, COS and Waldorf refers to Ma On Shan Plaza, City One Shatin and Waldorf Garden respectively



# Portfolio Occupancy

## ❖ Actual portfolio occupancy improves to 95.5% with 821 tenants

### Portfolio occupancy (%)

	GRA (sf)	Mar 06 (actual)	Jun 06 (actual)	Sep 06 (actual)	No of tenants <sup>1</sup>
City One Shatin Property	414,469	93.8	94.6	96.9	253
The Metropolis Mall	332,168	91.6	82.1	92.0	114
Ma On Shan Plaza	310,084	99.4	100.0	100.0	138
Waldorf Garden Property	80,842	100.0	100.0	100.0	40
Smartland	123,544	98.4	98.4	89.7	95
The Household Center	91,779	78.4	79.5	81.9	45
Jubilee Court Shopping Centre	170,616	95.7	98.5	97.4	45
Tsing Yi Square Property	78,836	93.7	93.7	97.7	58
Centre de Laguna Property	43,000	99.4	96.9	98.3	18
Lido Garden Property	9,836	92.5	100.0	97.8	11
Rhine Garden Property	14,604	100.0	100.0	100.0	4
<b>Portfolio Total</b>	<b>1,669,788</b>	<b>94.6</b>	<b>93.3</b>	<b>95.5</b>	<b>821</b>

Source: ARASL

Note:

1. As at 30 Sep 06

# Portfolio Expiry Profile

❖ 45.6% of leases will expire between 4Q06 and 2007

## Expiry profile by gross rentable area<sup>1</sup>

Percentage of occupied space expiring

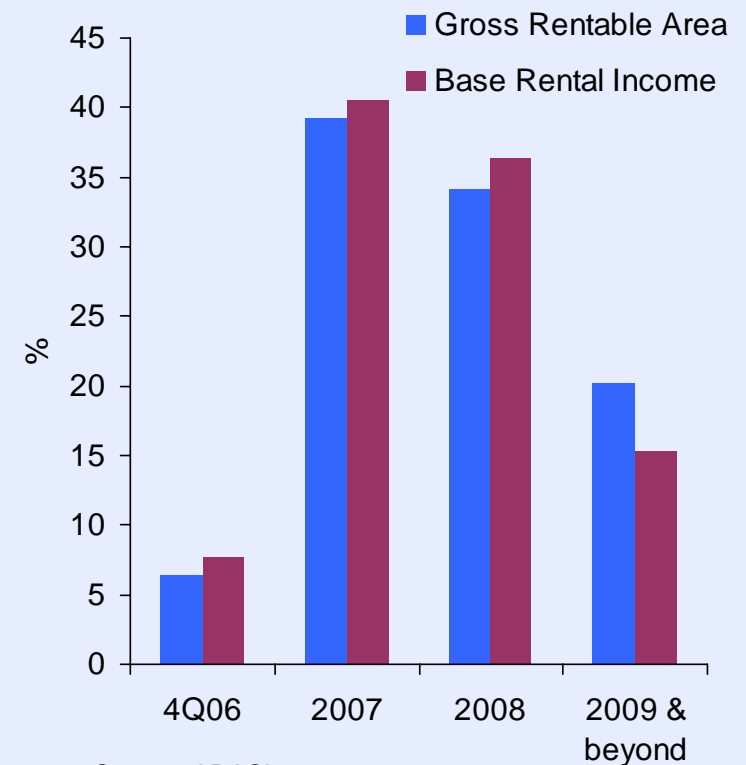
	4Q06 (%)	2007 (%)	2008 (%)	2009 and beyond (%)	Total (%)
City One Shatin Property	10.9	34.2	28.2	26.7	100.0
The Metropolis Mall	2.7	37.9	35.4	24.0	100.0
Ma On Shan Plaza	6.9	44.4	40.5	8.2	100.0
Waldorf Garden Property	0.0	72.1	27.9	0.0	100.0
Smartland	6.7	20.2	48.4	24.7	100.0
The Household Center	3.3	15.0	48.1	33.5	100.0
Jubilee Court Shopping Ctr	6.2	60.5	14.1	19.2	100.0
Tsing Yi Square Property	4.2	45.5	34.4	15.9	100.0
Centre de Laguna Property	5.0	10.8	38.4	45.8	100.0
Lido Garden Property	32.6	27.6	39.9	0.0	100.0
Rhine Garden Property	0.0	2.4	97.6	0.0	100.0
<b>Portfolio</b>	<b>6.4</b>	<b>39.2</b>	<b>34.1</b>	<b>20.2</b>	<b>100.0</b>

Source: ARASL

Note:

1. As at 30 Sep 06

## Portfolio expiry profile<sup>1</sup>

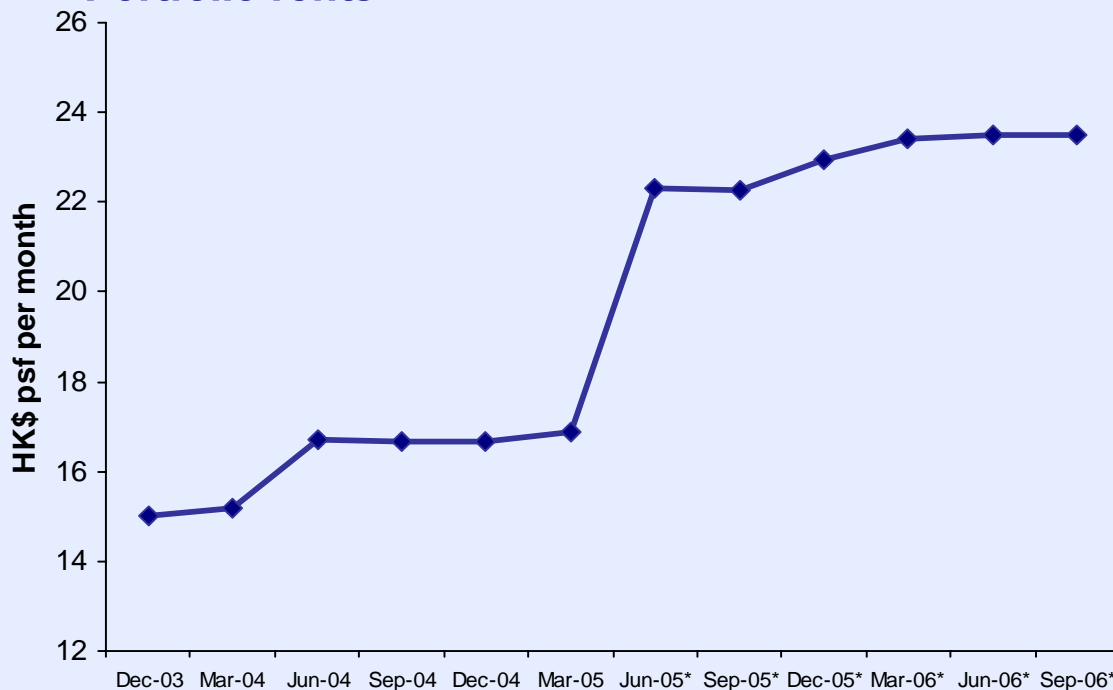


Source: ARASL

# Rentals

## ❖ Average passing rental stable

### Portfolio rents



Source: ARASL

Note:

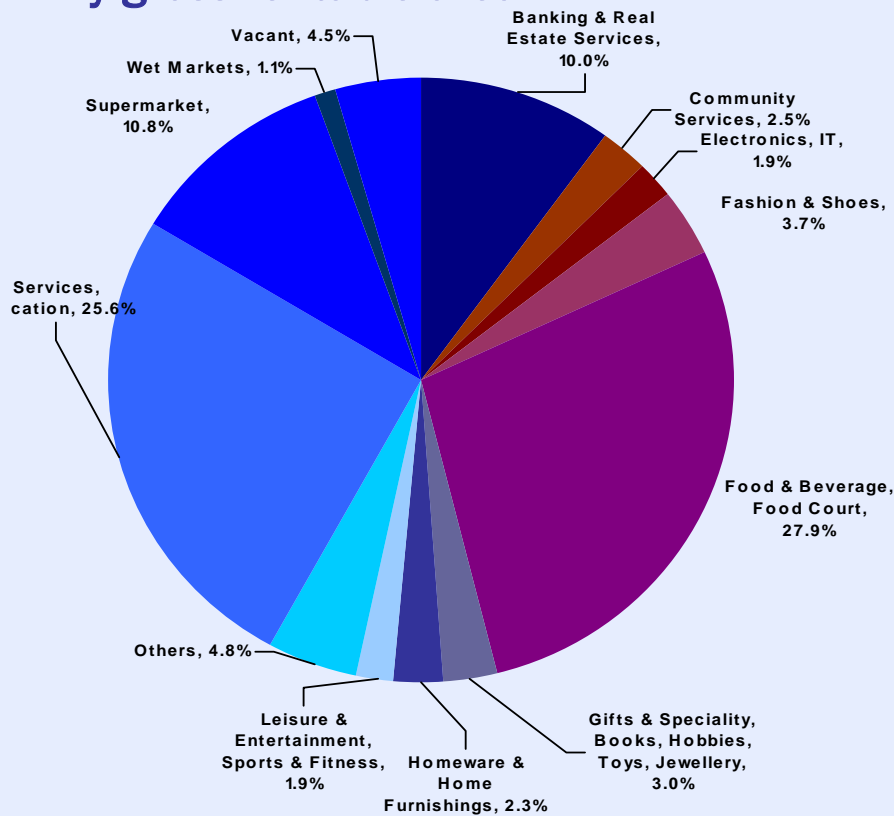
\* Include 6 properties which were acquired on 28 Jun 2005

- Average passing rental for the 11 malls improves to **\$23.42 psf per month** as at **Sep 06**
- Tenant retention rate YTD is **74.9%**.
- Weighted average rental reversion YTD is **8.2%** for renewals

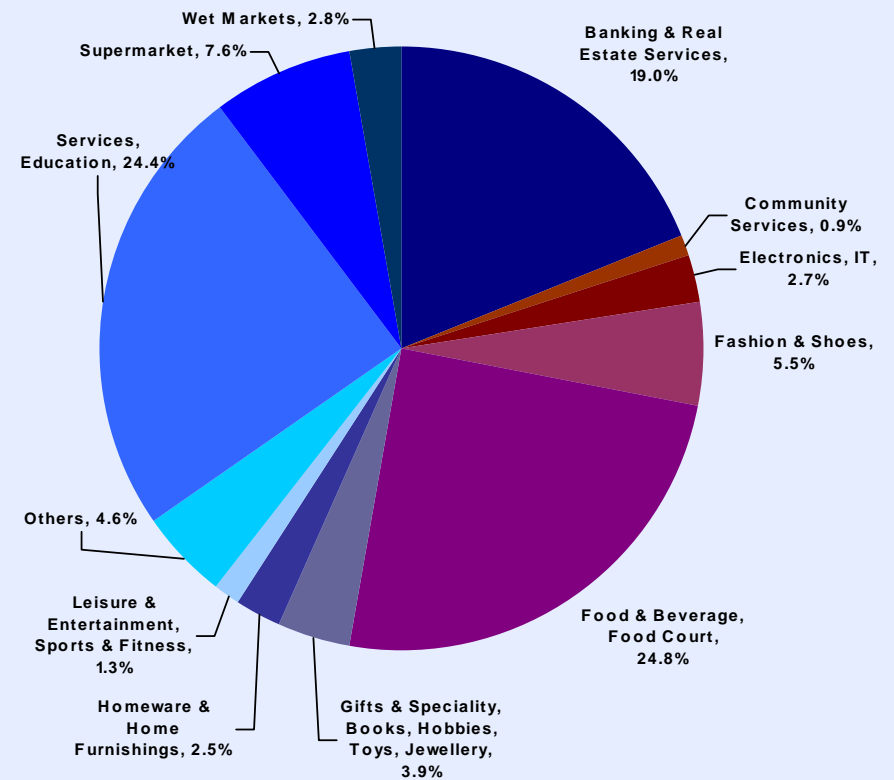
# Portfolio Tenant Trade Mix

❖ Trade mix remains diversified to meet catchment needs

By gross rentable area<sup>1</sup>



By base rental income<sup>1</sup>



Source: ARASL

Note:

1. As at 30 Sep 06

# Asset Enhancement Update: Metropolis Mall

## ❖ Reinforcing Repositioning Programs

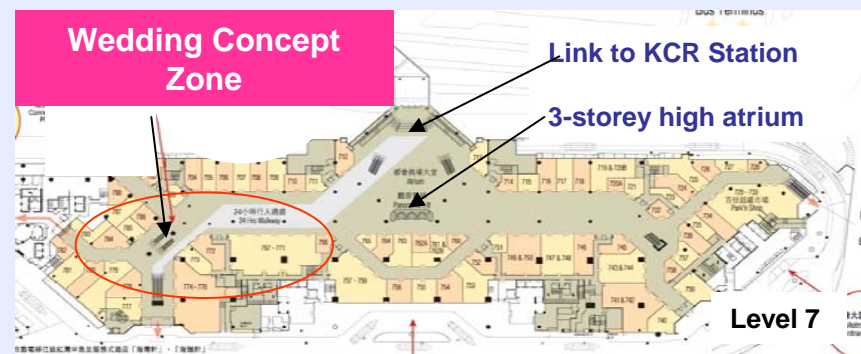
### MEETING CUSTOMERS NEEDS

- New Eden Marriage Registry offers added convenience of marriage solemnisation and related wedding services under one roof
- Prospecting more wedding service based tenants for comprehensive offerings

### MAXIMISING USE OF OPEN SPACE

- Creation of multi-use European styled “Wedding Park” along wide corridor spices up wedding ambience
- Revenue generating potential from use of “Wedding Park” for promotions, activities and exhibitions
- Enhancement works on track

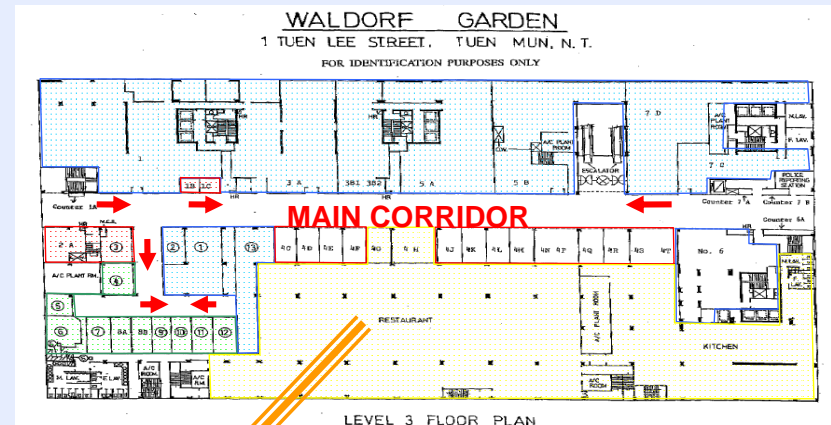
Source: ARASL



# Asset Enhancement Update: Waldorf Garden

## ❖ MAXIMISING RETURNS THROUGH RECONFIGURATION

- Works on track to convert large 33,000 sf restaurant/shop space into 32 retail shops and 3 restaurants
- Rents expected to improve by 100% after reconfiguration
- Works to commence 1 Apr 2007 after expiry of restaurant lease
- Pre-marketing commenced



### KEY DETAILS

- Proposed Trades
  - Fashion, accessories
  - Beauty/hair care services
  - Mobile & electronics
  - Small F&B
  - 3 mini-restaurants
- Number of new shops: 35
- Breakdown (% of area):
  - <1,000sf 51.16%
  - >1,000sf 48.84%



# Ongoing Strategy

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## Ongoing Strategy

- Focus on organic rental reversions as an engine of growth
- Initiate and implement asset enhancement plans for highest and best use of assets
- Proactive repositioning of trade mix within properties to secure higher paying trades to maximise economic returns
- Monitor and focus on prudent debt management to minimise costs
- Acquisitions exploration to expand to China



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