

ENHANCING YOUR VALUE

FORTUNE REAL ESTATE INVESTMENT TRUST
ANNUAL REPORT 2005



Fortune Real Estate Investment Trust (“Fortune REIT”) was listed on the Singapore Exchange Securities Trading Limited on 12 August 2003. It holds a portfolio of eleven retail malls and properties in Hong Kong, through the ownership of special purpose companies, worth approximately HK\$8.6 billion.

Fortune REIT is managed by ARA Asset Management (Singapore) Limited (“ARASL” or the “Manager”).

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OUR MISSION

The Manager's key objective is to deliver regular and stable returns to Unitholders through proactive management of Fortune REIT's portfolio of assets and acquiring properties that deliver yield accretion for Unitholders.



FINANCIAL HIGHLIGHTS

Highlights

Fortune REIT's portfolio of eleven malls and properties performed well in 2005. Net property income grew by 51.2% over the previous year, as a result of strong rental growth combined with yield-accretive acquisition. Fortune REIT's distribution per unit outperformed the forecast stated in the Unitholders' Circular dated 13 May 2005 (the "Forecast") by 5.0% on the back of solid rental reversions and high occupancies.



Financial Highlights, year ended December 2005

	2005 (HK\$'000)	2004 (HK\$'000)	Variance (%)
Revenue	452,905	308,209	46.9
Net property income	323,230	213,714	51.2
Income available for distribution	216,731	158,756	36.5
Distribution per unit (HK cents)	33.69	33.40	0.9

	Actual (HK\$'000)	Forecast ¹ (HK\$'000)	Variance (%)
Revenue	452,905	446,436	1.4
Net property income	323,230	313,208	3.2
Income available for distribution	216,731	204,833	5.8
Distribution per unit (HK cents)	33.69	32.10	5.0
Tax exempt distribution yield (%) ²	5.9	5.6	5.4

	31 Dec 05 (HK\$'000)	31 Dec 04 (HK\$'000)	Variance (%)
Total assets ^{3,4}	8,868	4,187	111.8
Total liabilities	2,653	1,053	151.9
Unitholders' equity	6,215	3,134	98.3
Adjusted net asset value per unit (HK\$) ⁵	7.72 ⁶	6.87 ⁷	12.4
Gearing (debt-to-asset) (%) ⁸	27	22	22.7
Units in issue (m)	801.3	475.2	68.6

Notes:

1. Based on the Forecast, together with the accompanying assumptions, in the Unitholders' Circular dated 13 May 2005
2. Based on the closing price of HK\$5.70 as at 31 Dec 2005
3. Valuation of the investment properties as at 31 Dec 2004 includes the first 5 malls; valuation as at 31 Dec 2005 includes all 11 malls and properties in the portfolio
4. With the adoption of FRS 103 – Business Combination, the outstanding negative goodwill as at 31 Dec 04 (HK\$134.4m) has been transferred to equity on 1 Jan 2005
5. Adjusted net asset value per unit ("NAV") is calculated based on total net assets of the Group excluding hedging reserve and negative goodwill
6. Includes distributable income of HK\$0.1722 per Unit payable on 28 Feb 2006
7. Includes distributable income of HK\$0.1640 per Unit paid on 28 Feb 2005
8. This excludes the front end fee and is calculated based on total debt to Deposited Property



CHAIRMAN'S REPORT

Dear Unitholders

On behalf of the Board of ARA Asset Management (Singapore) Limited, I am very pleased to present to you Fortune REIT's annual report for 2005.

The year 2005 was a significant one for Fortune REIT. In June 2005, through an equity fund raising of approximately HK\$1.9 billion, Fortune REIT successfully completed its maiden acquisition of six retail properties in Hong Kong, which saw its asset size almost doubled in value. The number of properties has increased from five to eleven. The acquisition was an important milestone for Fortune REIT, as it offers yield accretion, competitive strengths, income and geographical diversification, increased liquidity and economies of scale to Unitholders. Further, the acquisition proved to be revenue and growth enhancing - the enlarged portfolio achieved a high occupancy rate of 96.4%, while passing rental increased by 37.5% from end of 2004 to HK\$22.93 psf per month as at 31 December 2005.

Fortune REIT's portfolio of properties continued to benefit from the buoyant retail market brought by Hong Kong's ongoing economic strength, improved labour market conditions, record tourist arrivals and strong retail spending. On the back of these positive developments, the portfolio experienced a strong rental reversion rate of 15.4% for renewals during the year.

In 2005, Hong Kong experienced substantial increase in interest rates, with 3-month HIBOR rising from 0.3% at the beginning of the year to 4.2% as at year-

end. In anticipation, Fortune REIT had hedged around 75% of the debt on fixed terms to mitigate the impact on rising interest rates. It is expected that interest rate hikes should begin to ease off in the coming year.

In sum, Fortune REIT's portfolio of properties recorded a good performance in 2005. This was manifested in Fortune REIT's distribution per unit which came in at 5.0% above the Forecast, providing investors with an attractive tax-exempt yield of 5.9% based on the year-end closing price of HK\$5.70.

Looking ahead to 2006, we remain confident on the Hong Kong retail property market on the back of a positive outlook for the economy, barring any unforeseen circumstances. We aim to capitalise on the strong economic growth and enhance distribution to Unitholders through pro-active leasing, effective cost management, asset enhancements and yield accretive acquisitions.

With eleven assets in the portfolio worth approximately HK\$8.6 billion as at 31 December 2005, we believe that we have achieved the necessary scale to make 2006 another exciting year for Fortune REIT and its investors. I take this opportunity to extend my thanks to my fellow directors and management at all levels for their commitment and steadfast efforts in delivering continued growth to Fortune REIT. Finally I would like to thank all investors, tenants and business partners for their continued support to Fortune REIT in 2005 and look forward to an even better year ahead.

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A handwritten signature in black ink, appearing to read 'Justin Chiu', with a long horizontal flourish extending to the right.

Chiu Kwok Hung, Justin
Chairman
ARA Asset Management (Singapore) Limited
Manager of Fortune REIT
14 February 2006

TRUST REVIEW

Fortune REIT's malls and properties continued to perform well in 2005 with distribution per unit ("DPU") exceeding the Forecast by 5.0% at HK\$0.3369. Based on the closing price as at 31 December 2005 of HK\$5.70, the full year DPU was equivalent to a tax-exempt yield of 5.9%; using the initial public offer ("IPO") price of HK\$4.75, this is equivalent to a tax-exempt yield of 7.1%.

Distribution and yield, 2005

	Actual	Forecast ¹	Variance
Distribution per unit (HK\$) ²	0.3369	0.3210	5.0%
Distribution yield (tax-exempt)			
- based on IPO price (HK\$4.75)	7.1%	6.8%	4.4%
- based on 31 Dec 05 closing price (HK\$5.70)	5.9%	5.6%	5.4%

Source: ARASL

Notes:

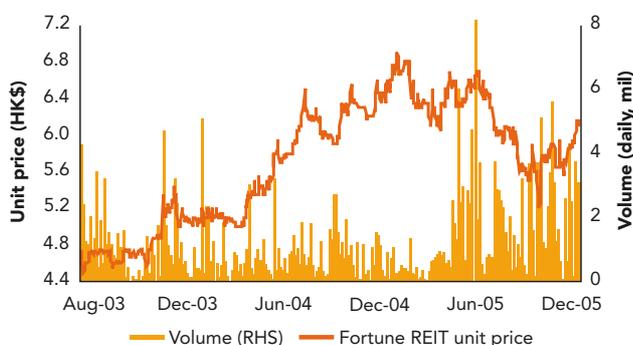
1. Based on the Forecast, together with the accompanying assumptions, in the Unitholders' Circular dated 13 May 2005
2. Based on a total number of 803.0 million Units in issue

Since listing in August 2003, investors have enjoyed an unit price appreciation of 20.0% (from IPO price of HK\$4.75 to year-end closing price of HK\$5.70). Taking into account the distributions declared, the total return to Unitholders since listing is 36.7%¹.

Unit activity

Fortune REIT's unit price reached a high of HK\$6.90 and a low of HK\$5.20 in 2005, closing at HK\$5.70 as at 31 December 2005. The volume transacted during the year was 236.5 million units, up 73.9% from last year, equivalent to an average of 0.9 million units daily.

Fortune REIT price and volume



Source: Bloomberg

Notes:

1. Calculated by dividing the sum of (i) Unit price increase of HK\$0.95 (based on initial public offering ("IPO") price of HK\$4.75 per Unit and closing price of HK\$5.70 per Unit as at 31 Dec 2005), (ii) one distribution for the year ended 31 Dec 2003 of HK\$0.1243 per Unit (paid in Feb 2004), (iii) two distributions for the year ended 31 Dec 2004 of HK\$0.1700 per Unit and HK\$0.1640 per Unit (paid in Aug 2004 and Feb 2005 respectively) and (iv) two distributions for the year ended 31 Dec 2005 of HK\$0.1647 per Unit and HK\$0.1722 per Unit (paid in Aug 2005 and Feb 2006 respectively), divided by the IPO Unit price of HK\$4.75
2. Adjusted NAV is calculated based on the total net assets of the Group excluding hedging reserve and negative goodwill. Adjusted NAV as at 31 Dec 2004 includes first 5 malls; adjusted NAV as at 31 Dec 2005 includes 11 malls and properties in the portfolio

Net asset value

Fortune REIT's portfolio consists of 11 retail malls and properties located in Hong Kong. Savills Valuation and Professional Services Limited ("Savills"), an independent valuer, appraised the portfolio as at 31 December 2005 valuing it at a total of HK\$8,592 million. This represents an overall increase of 10.0% from a year earlier, a reflection of the strong retail investment environment in Hong Kong and the improvement in Fortune REIT's asset performance. With the revaluation of assets, adjusted NAV² rose 12.4% from HK\$6.87 per unit as at 31 December 2004 to HK\$7.72 per unit as at 31 December 2005. Compared to the year-end closing price of HK\$5.70, Fortune REIT is currently trading at a discount to NAV of 26.2%, making Fortune REIT an attractive investment to long term investors.

Property valuation

	Previous (HK\$m)	31 Dec 05 ³ (HK\$m)	Increase (%)
City One Shatin Property	2,680 ¹	3,050	13.8
The Metropolis Mall	1,959 ²	1,959	--
Ma On Shan Plaza	1,282 ²	1,475	15.1
Waldorf Garden Property	430 ¹	480	11.6
Smartland	346 ²	396	14.5
The Household Center	302 ²	315	4.3
Jubilee Court Shopping Centre	295 ²	310	5.1
Tsing Yi Square Property	250 ¹	290	16.0
Centre de Laguna Property	145 ¹	168	15.9
Lido Garden Property	80 ¹	95	18.8
Rhine Garden Property	43 ¹	54	25.6
Total	7,812²	8,592⁴	10.0

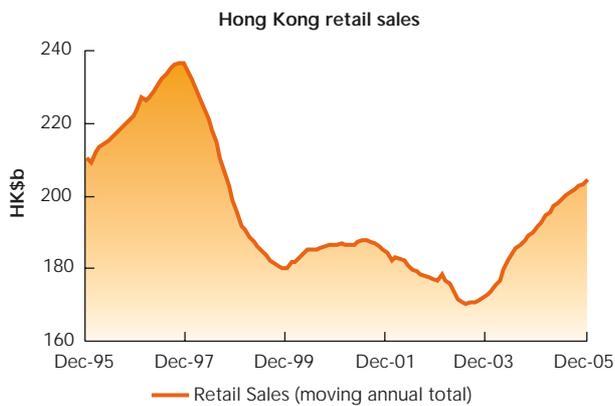
Source: ARASL

Notes:

1. Based on Chesterton Petty Limited ("Chesterton") and Vigers Appraisal and Consulting Limited ("Vigers") valuation as at 31 Jan 2005 for the 6 newly acquired properties, taking the lower of two valuations
2. Based on Chesterton valuation as at 31 Dec 2004 for first 5 malls
3. Based on Savills valuation as at 31 Dec 2005 for the portfolio
4. This includes an amount of HK\$73 million which has been reclassified to current assets "Investment properties held for resale" as at 31 Dec 2005

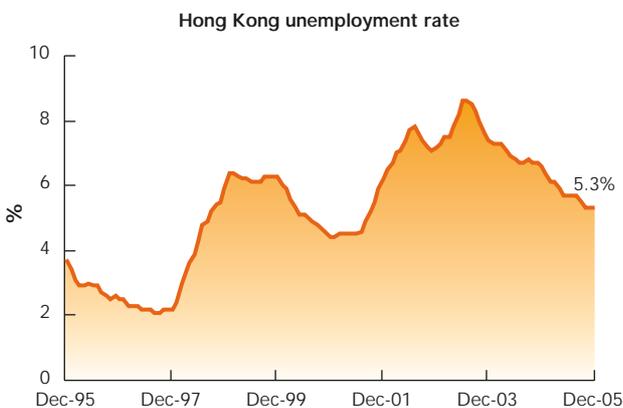
Hong Kong economic outlook

In 2005, the Hong Kong economy continued to improve after experiencing a strong performance in 2004. In general, major economic indicators reported positive growth, in particular, Hong Kong Gross Domestic Product registered a robust growth rate of 7.3% over a year earlier. Total retail sales continued to remain buoyant, up 6.8% from 2004. Retail sales totalled HK\$204.6 billion in value for the year 2005, the highest since 1997.



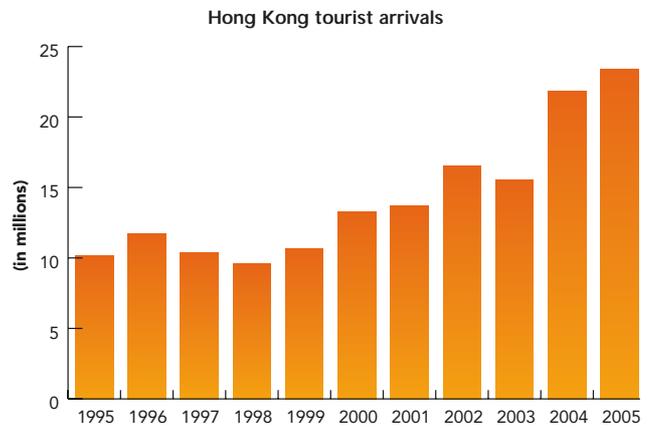
Source: Bloomberg

The strength in retail spending has been driven by two major factors: the increase in local demand and the booming tourist spending. Local demand continued to see major improvement during the year, thanks to the improving labour market conditions and high income growth. Hong Kong's unemployment rate dropped from more than 8% in late 2003 to 5.3% in December 2005.



Source: Bloomberg

On the other hand, tourist arrivals in Hong Kong recorded an all-time high of approximately 23.4 million visitors in 2005, aided by the expansion of the Individual Visit Scheme in Mainland China to 38 cities and the opening of Hong Kong Disneyland in September 2005. Mainland Chinese tourists still remain the dominant source of tourists in Hong Kong, contributing more than half of all tourist arrivals in 2005.



Source: Bloomberg

Looking ahead to 2006, we expect Hong Kong's economy to remain strong, barring any unforeseen circumstances. With improving incomes and better job opportunities, retail sales will likely enjoy yet another year of solid growth, though it is widely expected that the growth will be at a lower rate than the 6.8% achieved in 2005.





Waldorf Garden Property

Portfolio overview

In June 2005, Fortune REIT successfully completed the acquisition of 6 retail properties, namely City One Shatin Property, Waldorf Garden Property, Tsing Yi Square Property, Centre de Laguna Property, Lido Garden Property and Rhine Garden Property. The acquisition increased Fortune REIT's portfolio from 5 assets to 11, with gross rentable area totalling approximately 1.7 million square feet. The newly acquired properties began contributing to Fortune REIT's income from 29 June 2005 on completion of the acquisition.

Fortune REIT's 11 retail malls and properties performed well in 2005, showing improvement in both occupancies and rental rates. Income available for distribution for the year ended 2005 was HK\$216.7 million, which was 5.8% above the Forecast.

Income available for distribution, 2005

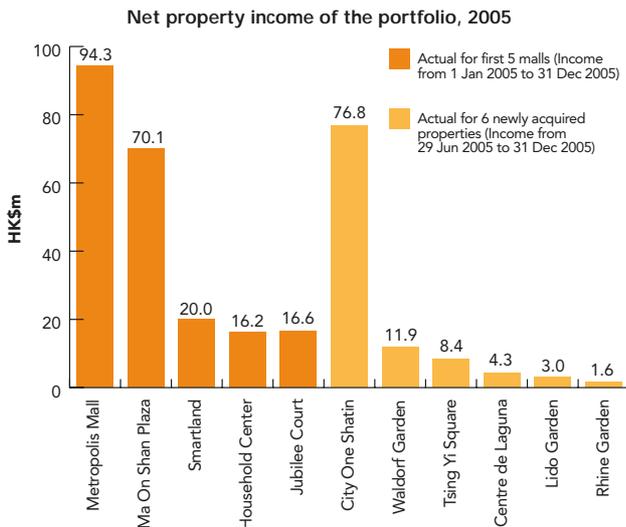
	Actual (HK\$'000)	Forecast ¹ (HK\$'000)	Variance (%)
Rental revenue & charge-outs	439,592	425,116	3.4
Income and licence fee top-up	13,313	21,320	(37.6)
Operating costs ²	(129,675)	(133,228)	(2.7)
Net property income ("NPI")	323,230	313,208	3.2
Borrowing costs	(59,133)	(62,239)	(5.0)
Profit before tax ³	264,097	250,969	5.2
Hong Kong tax	(46,195)	(43,920)	5.2
Net profit of property cos	217,902	207,049	5.2
Net profit of trust ^{3,4}	333,083	340,637	(2.2)
Income available for distribution	216,731	204,833	5.8
DPU (HK\$)	0.3369	0.3210	5.0

Source: ARASL

Notes:

1. Based on the Forecast, together with the accompanying assumptions, in the Unitholders' Circular dated 13 May 2005
2. Includes Manager's performance fees
3. Due to the early adoption of FRS 40 during the current financial year, the Group recognised a gain of HK\$799.3 million arising from changes in fair value of the properties in the Group's income statement. There will be no impact on Income available for distribution. This figure is thus excluded for the purpose of this presentation
4. Trust expenses include the Manager's base fees, trustee fees, and admin expenses. Also includes the negative goodwill arising from the acquisitions of the 6 properties which closed on 28 Jun 2005

Revenue exceeded the Forecast by 3.4%, while net property income of the portfolio exceeded the Forecast by 3.2% at HK\$323.2 million, due to a combination of stronger than expected occupancy levels and rental growth.



Source: ARASL

Occupancy for the whole portfolio rose from 94.9% to 96.4% from a year ago, as a result of strong take-up at the malls and the addition of new properties. The number of tenants also increased 89.7% from 438 as at 31 December 2004 to 831 as at 31 December 2005.

An increase in occupancy was witnessed for all the major income contributors, namely, City One Shatin Property, The Metropolis Mall and Ma On Shan Plaza. Notably, Ma On Shan Plaza's committed occupancy stood at 100% as at 31 December 2005. As most of the malls are either at or close to full occupancy, we aim to focus on optimising tenant mix and improving rental rates in the coming year.

Actual occupancy of the portfolio, December 2005

	Dec-04	Dec-05
City One Shatin Property	-	95.6
The Metropolis Mall	87.8	92.4
Ma On Shan Plaza	98.9	99.2
Waldorf Garden Property	-	98.9
Smartland	98.8	98.1
The Household Center	98.2	98.0
Jubilee Court Shopping Centre	96.7	95.7
Tsing Yi Square Property	-	99.1
Centre de Laguna Property	-	99.4
Lido Garden Property	-	100.0
Rhine Garden Property	-	100.0
Portfolio	94.9	96.4
No. of tenants	438	831

Source: ARASL

Ma On Shan Plaza continued to be one of the strong performers in the portfolio, with average rental reversion of 18.1% for renewals in 2005. Throughout the year, the mall focused on attracting higher paying trades such as the banking and real estate sector. The banking and real estate sector now accounts for 14.7% of the mall's gross rentable area against 8.0% in December 2004. Shopper traffic also continued to increase, growing at 22% in 2005 against 2004, boosted by the two footbridge linkage that connects the mall to the Ma On Shan KCRC Station.

Ma On Shan Plaza link to Ma On Shan KCRC Station



City One Shatin Property, one of the largest contributor to Fortune REIT's income, achieved a solid rental reversion rate of 18.7% for renewals since acquisition. In the coming year, we plan to implement asset enhancement plans to create greater rentable space at the mall and reduce energy costs in order to improve the net property income of the mall.

City One Shatin Property



The Metropolis Mall

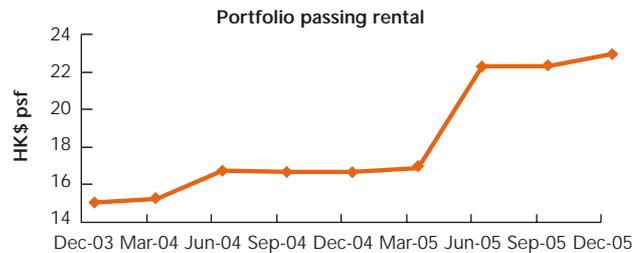


The Metropolis Mall achieved an occupancy rate of 92.4% as at 31 December 2005. In addition, shopper traffic for 2005 more than doubled the previous year. In August 2005, Taiwan's No. 1 wedding magazine group, IdoWedding, signed a 6-year master lease at Metropolis to rent approximately 5% of gross rentable area in the first phase. The scheme was highly successful and the space has subsequently been fully taken up by wedding operators in Taiwan. In the coming months, the mall will focus on capitalising on the wedding theme to attract related trades such as jewellery and wedding banquet packages, with an aim of positioning the mall as a one-stop venue for full wedding services to Hong Kong, Mainland China and overseas couples.

Launch of Taiwan Wedding Concept at Metropolis

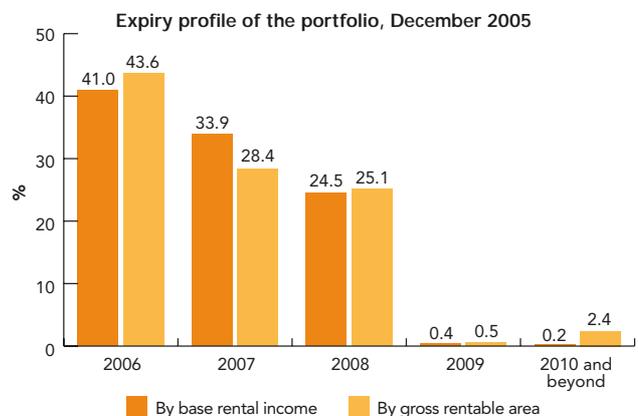


In terms of passing rental, the portfolio's passing rental rose 37.5% from HK\$16.68 psf per month as at 31 December 2004 to HK\$22.93 psf per month as at 31 December 2005, as a result of strong rental reversions and higher passing rentals for the newly acquired properties. Rental reversion for the 11 malls and properties was 15.4% for renewals in 2005, with a tenant retention rate of around 75%.



Source: ARASL

With regards to the portfolio's expiring profile, 41.0% of the base rental income¹ and 43.6% of the occupied area will expire in 2006, out of which a large proportion comes from The Metropolis Mall and City One Shatin Property. We expect the expiring leases to leverage on the improving economy outlook and generate positive rental reversion rates in the coming year.



Source: ARASL

Expiry profile by base rental income, December 2005

	2006 (%)	2007 (%)	2008 (%)	2009 (%)	2010 and beyond (%)
City One Shatin	43.3	38.3	17.8	0.0	0.6
Metropolis	54.7	14.9	27.9	2.5	0.0
Ma On Shan Plaza	20.6	39.5	39.9	0.0	0.0
Waldorf Garden	29.3	48.4	22.3	0.0	0.0
Smartland	47.3	27.3	25.4	0.0	0.0
Household Center	49.3	15.8	34.9	0.0	0.0
Jubilee Court	60.8	31.2	8.0	0.0	0.0
Tsing Yi Square	30.6	55.2	14.2	0.0	0.0
Centre de Laguna	82.3	15.7	2.0	0.0	0.0
Lido Garden	41.9	38.8	19.3	0.0	0.0
Rhine Garden	4.1	15.9	80.0	0.0	0.0
Portfolio	41.0	33.9	24.5	0.4	0.2

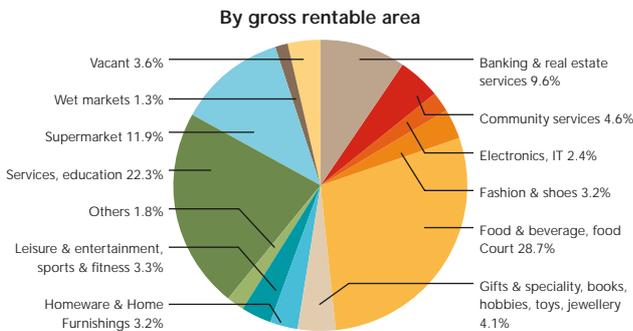
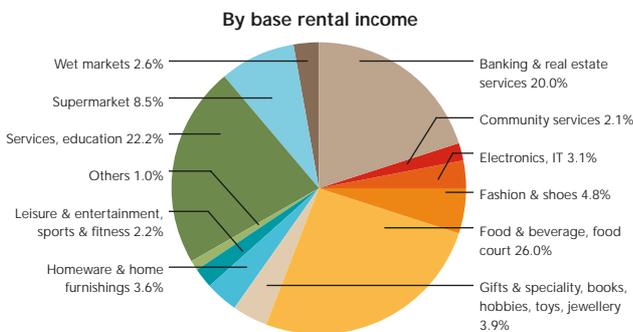
Source: ARASL

Note:

1. Base rental income is defined as gross rental income due from tenancies but excludes turnover rent

Fortune REIT's tenant mix remained diversified in 2005, with approximately 26% of base rental income from the food and beverage sector, around 22% from the services and education sector. Going forward, we aim to focus on attracting higher yielding tenants, for example the banking and real estate sector, to the malls in order to improve portfolio income.

Tenant mix of the portfolio, December 2005



Source: ARASL

We also aim to generate additional revenue through the usage of atrium and other rentable space at the malls. For example, during Christmas, an exhibition fair was held outside City One Plaza. The fair was well-received by tenants and shoppers at the mall and it enabled the REIT to generate additional income for Unitholders. In the coming year, we also plan to convert the fountain area of City One Plaza into rentable space for exhibition events and kiosks in order to generate more revenue from the mall.

Exhibition fair at City One Shatin Property during Christmas



The portfolio enjoys a diverse tenant base with 831 tenants as at 31 December 2005. The top 10 tenants comes from diverse trade sectors and includes famous names such as Park'N Shop, Maxim's Chinese Restaurant, 7-Eleven and Watson's. The top 10 tenants contributed approximately 27.3% of the portfolio's base rental income and accounts for approximately 23.7% of gross rentable area. In addition, no single tenant accounts for more than 8.0% of the total base rental income of the portfolio.

Top 10 tenants by base rental income, December 2005

Name of tenant	Trade sector	% of total base rental income	% of total gross rentable area
Park'N Shop	Supermarkets	8.0	11.5
Bank of China (HK) Limited	Banking & real estate services	3.5	1.4
Midland Realty	Banking & real estate services	2.6	0.4
Marketon Investment Limited	Banking & real estate services	2.3	1.9
Centaline Property Agency	Banking & real estate services	2.2	0.5
The Metropolis Express	Food & beverage, food court	2.1	2.0
Maxim's Chinese Restaurant	Food & beverage, food court	1.8	2.9
Watson's	Services, education	1.7	1.4
7-Eleven	Services, education	1.7	0.7
Clayton Power Enterprises Limited	Banking & real estate services	1.4	1.0
Total		27.3	23.7

Source: ARASL

Cost management

Total cost-to-revenue ratio was 26.4% for the year 2005, a decline from 28.0% in 2004. Our long term target still remains at 25% and we aim to achieve this by improving rental income and rationalising operating costs, such as the replacement of equipment in order to improve energy efficiency, etc.

We expect the total cost-to-revenue ratio to remain at around the same level in the coming year.

Debt management

As at 31 December 2005, Fortune REIT's outstanding debt stood at HK\$2,397 million, with a gearing ratio of 27.0%. We believe that this is low compared to the regulatory limit set by the Monetary Authority of Singapore and by industry standards. This allows us more flexibility in capital management in making future acquisitions.

Fortune REIT borrowing costs, 2005

	Actual	Forecast ²	Variance
Borrowing costs (HK\$m)	59.1	62.2	(5.0%)
Average interest rate ¹	3.27%	3.30%	-3bps

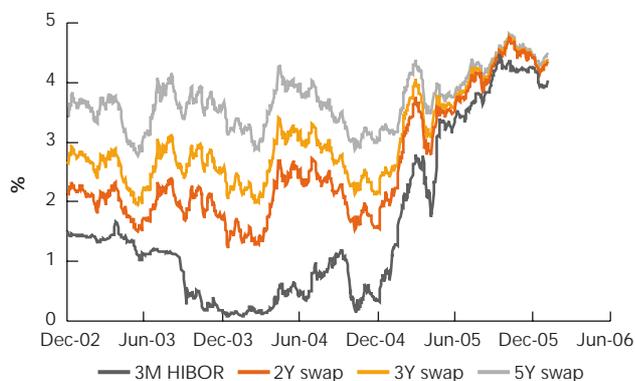
Source: ARASL

Notes:

- 1. Weighted by the relative amounts of fixed and floating debt
- 2. Based on the Forecast, together with the accompanying assumptions, in the Unitholders' Circular dated 13 May 2005

In 2005, total borrowing costs totalled to HK\$59.1 million, coming in at 5% below the Forecast. This is equivalent to an average interest rate of 3.27%.

Hong Kong interest rates



Source: Bloomberg

Interest rates in Hong Kong had been relatively volatile in 2005, with the 3-month HIBOR rising close to 400 basis points during the year. However, going forward, movement in interest rates is expected to moderate. With approximately 75% of the debt fixed at various maturities and the low gearing ratio of Fortune REIT, the impact of any further increase in interest rates should be mitigated.

Fortune REIT debt structure

	Term	31 Dec 04 (HK\$m)	31 Dec 05 (HK\$m)	% of total
Revolving	1M	26	12	0.5
Floating	3M	430	541 ¹	22.6
Fixed	1Y - 3Y	470	1,844 ²	76.9
Total		926	2,397	100.0

Source: ARASL

Notes:

- 1. Excluded the debt front-end fee
- 2. Interest was hedged in Jul 2005

Outlook

Moving forward, we are confident about the outlook for Fortune REIT in 2006 as the Hong Kong economy continues to strengthen and market sentiment remaining very strong. Interest rate movements will affect Fortune REIT's performance, but the impact will be limited as volatility of the interest rates in Hong Kong is expected to reduce in the coming year. We aim to capitalise on the robust economic environment to improve occupancies and rental rates across the portfolio, with the aim of maximising returns for our Unitholders. In addition, we will also continue to seek yield-accretive properties within our investment strategy.

Lim Hwee Chiang, John
Chief Executive Officer

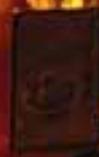


CITY ONE



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吉野家
YOSHINOYA





In June 2005, Fortune REIT successfully completed the acquisition of six retail properties, namely City One Shatin Property, Waldorf Garden Property, Tsing Yi Square Property, Centre de Laguna Property, Lido Garden Property and Rhine Garden Property.

PORTFOLIO SUMMARY

	Location	Gross rentable area (sf) ¹	Number of tenants ¹	Occupancy rate ¹ (%)	Valuation (HK\$m) ²	Net property income (HK\$m) ³	Net property yield (%) ⁴
	New Territories	414,469	260	95.6	3,050	76.8	4.9
	Kowloon	332,168	102	92.4	1,959	94.3	4.8
	New Territories	310,084	146	99.2	1,475	70.1	4.8
	New Territories	80,842	40	98.9	480	11.9	4.9
	New Territories	123,544	95	98.1	396	20.0	5.1
	New Territories	91,779	44	98.0	315	16.2	5.1
	New Territories	170,616	50	95.7	310	16.6	5.4
	New Territories	78,836	58	99.1	290	8.4	5.7
	Kowloon	43,000	20	99.4	168	4.3	5.0
	New Territories	9,836	12	100.0	95	3.0	6.2
	New Territories	14,604	4	100.0	54	1.6	5.8
Total		1,669,778	831	96.4	8,592	323.2	5.0

Notes:

1. As at 31 Dec 2005

2. As at 31 Dec 2005, valued by Savills Valuation and Professional Services Limited

3. For the 186-day period from 29 Jun 2005 to 31 Dec 2005 for the 6 newly-acquired properties

4. Annualised based on the 186-day period from 29 Jun 2005 to 31 Dec 2005 for the 6 newly-acquired properties

- EXISTING MALLS
- NEWLY-ACQUIRED PROPERTIES



NEW TERRITORIES

WALDORF GARDEN PROPERTY

RHINE GARDEN PROPERTY

LIDO GARDEN PROPERTY

TSING YI SQUARE PROPERTY

SMARTLAND

JUBILEE COURT SHOPPING CENTRE

MA ON SHAN PLAZA

CITY ONE SHATIN PROPERTY

THE HOUSEHOLD CENTER

THE METROPOLIS MALL

CENTRE DE LAGUNA PROPERTY

LANTAU ISLAND

HONG KONG

CITY ONE SHATIN PROPERTY

The City One Shatin Property is located in Shatin, New Territories, south of the Shing Mun River. The City One Shatin Property is part of the 10,642 unit City One Shatin residential development completed in the 1980's and is one of the largest residential developments in Hong Kong.

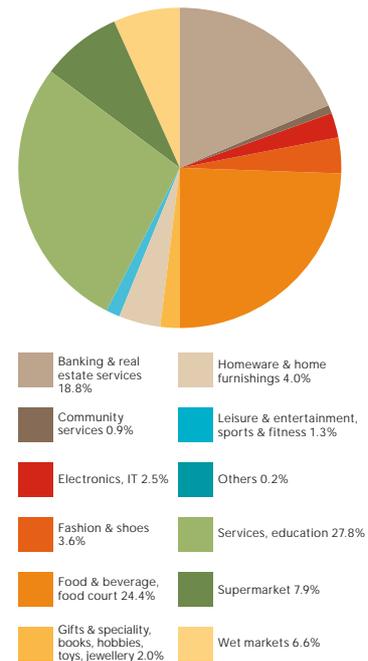
The City One Shatin Property comprises of Ngan Shing Commercial Centre on the Ground Floor, Fourth Floor and the Roof; City One Plaza on the Ground Floor, First Floor and portion of the Roof, Roof Garden, Centre Garden and Kiosks thereof; wet market and kindergarten below residential tower blocks 34-36 on the Ground Floor only; and various single shops and non-domestic units dispersed throughout the development on the Ground Floor of twelve individual residential tower blocks.

The City One Shatin Property is positioned as a retail and entertainment mall that serves the needs of the local residents within City One Shatin. Its catchment population also includes students and workers within the vicinity.

The City One Shatin Property is easily accessible to shoppers via private and public transportation, namely buses, taxis and franchised buses. Further, it is strategically located near Ma On Shan Rail's City One Station which commenced its operations in December 2004. It is also in close proximity to the Shatin station on the East Rail of KCRC.

The Manager's current objective is to increase its income by optimising the trade mix of the mall, continue strong rental reversion and to create more rentable area through asset enhancements.

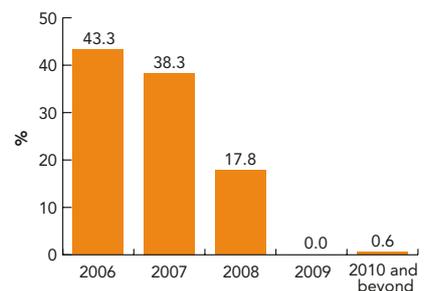
Tenant mix¹



Top 5 tenants by base rental income, December 2005

Name of tenant	Trade sector	% of total base rental income	% of total gross rentable area
Park 'N Shop	Supermarkets	6.9	6.0
Bank of China (HK) Limited	Banking & real estate services	3.9	1.8
Midland Realty	Banking & real estate services	3.9	0.6
McDonald's	Food & beverage, food court	3.2	1.9
Cambridge Nursing Home (City One) Limited	Services, education	3.0	6.1

Expiry profile¹



Note:
1. By base rental income, as at 31 Dec 2005





LOCATION No 1 and 2 Ngan Shing Street, No 6 Lok Shing Street and Various Ground Floor Shops of the Residential Towers City One Shatin, Sha Tin, New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1981-1989

GROSS FLOOR AREA (SF)¹
414,469

GROSS RENTABLE AREA (SF)¹
414,469

CARPARKS 986

ACQUISITION DATE 28 June 2005

ACQUISITION VALUE (HK\$M)²
2,559

VALUATION AT PURCHASE (HK\$M)³
2,680

LATEST VALUATION (HK\$M)¹
3,050

LATEST VALUATION DATE
31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 95.6%

NUMBER OF TENANTS¹ 260

GROSS RENTAL (HK\$M)^{4,5} 87.7

NET PROPERTY INCOME (HK\$M)⁵
76.8

Notes:

1. As at 31 Dec 2005
2. As defined in the Unitholder's Circular dated 13 May 2005
3. As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
4. Includes licence income but excludes charge-out collections
5. For the 186-day period from 29 Jun 2005 to 31 Dec 2005

THE METROPOLIS MALL

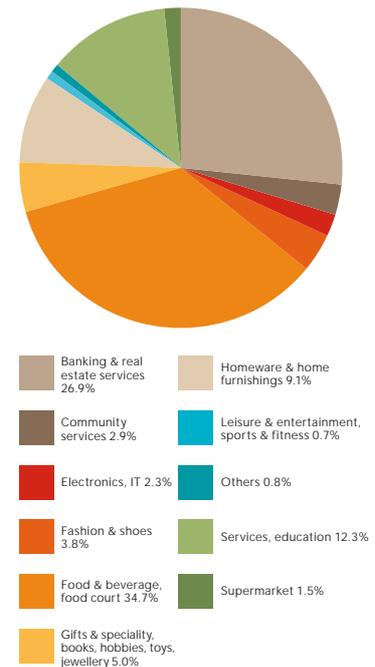
The Metropolis Mall is located in the established residential and commercial area of Hung Hom in south Kowloon. It is part of The Metropolis, a 1.4 million sf integrated retail, office, hotel and service apartment development. It is also connected to the Hung Hom KCRC station (a mass transportation centre which links Kowloon, the New Territories and the PRC) on its East Rail, and is served by the Hung Hom bus terminal and a taxi station. In October 2004, the East Tsim Sha Tsui station of the KCRC's East Rail opened, which provides a pedestrian link for the East Rail to the MTR's Tsim Sha Tsui station via an underground walkway.

The Metropolis Mall is positioned as a retail and entertainment centre for the surrounding developments of over 16,000 apartment units, including The Metropolis Residences, The Royal Peninsula, Whampoa Garden,

Whampoa Estate and Hung Hom Bay Centre. A number of hotel projects are also nearby, which include the 690-room Harbour Plaza Metropolis and the two upcoming hotels to be completed in 2006 with a total accommodation of over 3,600 rooms. Moreover, the mall is near the Kowloon side of the Cross Harbour Tunnel entrance (the busiest undersea vehicular tunnel in Hong Kong that links Kowloon with Hong Kong Island), the 12,500 seat Hong Kong Coliseum, a major venue for concerts and events, and the Hong Kong Polytechnic University.

The Manager's current objective for The Metropolis Mall is to integrate the wedding concept in the mall and to optimise its tenant mix, taking advantage of the growing tourist flow from China, as well as the growing catchment of residents, hotel guests, students and concert-goers.

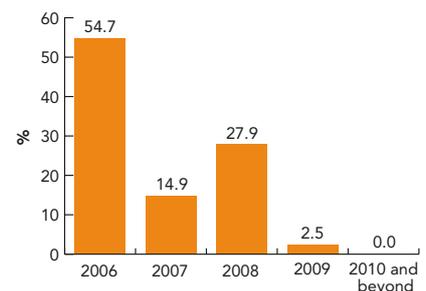
Tenant mix¹



Top 5 tenants by base rental income, December 2005

Name of tenant	Trade sector	% of total base rental income	% of total gross rentable area
Marketon Investment Limited	Banking & real estate services	15.2	9.4
The Metropolis Express	Food & beverage, food court	14.0	9.8
Clayton Power Enterprises Limited	Banking & real estate services	9.5	5.0
Choi Fook Seafood Restaurant	Food & beverage, food court	7.0	5.1
Lifestyle Concept Store	Homeware & home furnishings	6.6	4.1

Expiry profile¹



Note:
1. By base rental income, as at 31 Dec 2005





LOCATION No 6-10 Metropolis Drive, The Metropolis, Kowloon, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 2001

GROSS FLOOR AREA (SF)¹
344,055

GROSS RENTABLE AREA(SF)¹
332,168

CARPARKS 179

ACQUISITION DATE
12 August 2003

ACQUISITION VALUE (HK\$M)²
1,464

VALUATION AT PURCHASE (HK\$M)³
1,560

LATEST VALUATION (HK\$M)¹
1,959

LATEST VALUATION DATE
31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 92.4%

NUMBER OF TENANTS¹ 102

GROSS RENTAL (HK\$M)⁴ 96.2

NET PROPERTY INCOME (HK\$M)
94.3

Notes:

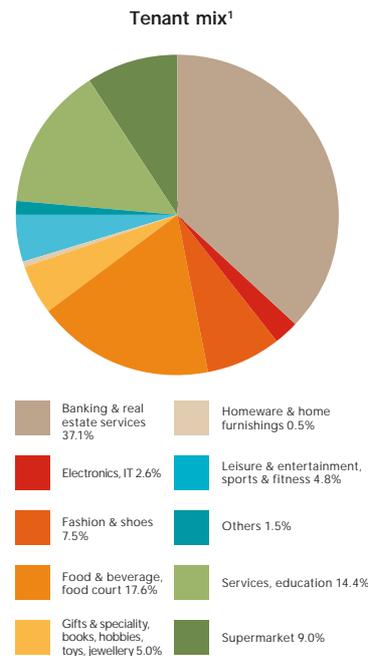
1. As at 31 Dec 2005
2. As defined in the prospectus dated 28 Jul 2003 (the "Prospectus")
3. As at 31 May 2003, valued by Chesterton
4. Includes licence income and rental guarantee from Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited but excludes charge-out collections

MA ON SHAN PLAZA

Ma On Shan Plaza is located strategically in Ma On Shan, Shatin, New Territories. The mall is easily accessible by public transportation, taxis and franchised buses with the public light bus terminal, taxi waiting area and bus station on its ground floor. It is directly connected to the Ma On Shan station of the Ma On Shan KCRC railway via a footbridge link which opened in December 2004.

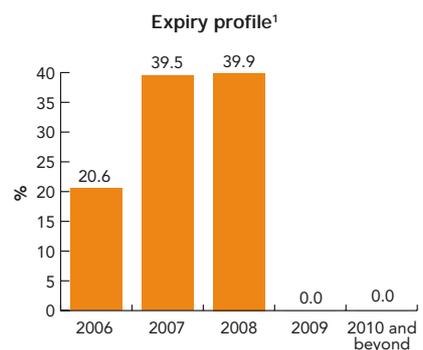
The residential catchment includes Ma On Shan, a new town with approximately 194,000 residents. It is also part of the 1,102-unit Bayshore Towers residential complex and is linked to the adjacent 4,760-unit Sunshine City residential development via two covered footbridges, as well as connected to the 5.5-hectare Ma On Shan Park via a covered footbridge.

The Manager's current objective for Ma On Shan Plaza is to enhance its income by leveraging off the increased shopper traffic due to the presence of the new KCRC railway station. The Manager is also reviewing its tenant mix structure and mall layout to enhance its overall return.



Top 5 tenants by base rental income, December 2005

Name of tenant	Trade sector	% of total base rental income	% of total gross rentable area
Bank of China (HK) Limited	Banking & real estate services	10.4	4.9
Maxim's Chinese Restaurant	Food & beverage, food court	9.4	15.8
Park 'N Shop	Supermarkets	9.0	18.2
The Bank of East Asia	Banking & real estate services	4.5	1.6
Shanghai Commercial Bank Limited	Banking & real estate services	3.5	1.9



Note:
1. By base rental income, as at 31 Dec 2005





LOCATION No 608 Sai Sha Road,
Ma On Shan, Shatin, New Territories,
Hong Kong

TITLE Government Leasehold until
30 June 2047

YEAR OF COMPLETION 1994

GROSS FLOOR AREA (SF)¹
319,560

GROSS RENTABLE AREA (SF)¹
310,084

CARPARKS 290

ACQUISITION DATE
12 August 2003

ACQUISITION VALUE (HK\$M)²
935

**VALUATION AT PURCHASE
(HK\$M)**³ 970

LATEST VALUATION (HK\$M)¹
1,475

LATEST VALUATION DATE
31 December 2005

VALUER Savills Valuation and
Professional Services Limited

ACTUAL OCCUPANCY¹ 99.2%

NUMBER OF TENANTS¹ 146

GROSS RENTAL (HK\$M)⁴ 73.8

NET PROPERTY INCOME (HK\$M)
70.1

Notes:

1. As at 31 Dec 2005
2. As defined in the Prospectus
3. As at 31 May 2003, valued by
Chesterton
4. Includes licence income but
excludes charge-out collections

WALDORF GARDEN PROPERTY

The Waldorf Garden Property is located in the heart of Tuen Mun district. It is part of the Waldorf Garden residential development, comprising 5 tower blocks on top of a commercial complex. The Waldorf Garden Property is connected to the adjacent Tuen Mun Town Plaza, one of the largest shopping mall in the Northwest New Territories, via a covered footbridge.

The Waldorf Garden Property is next to the Tuen Mun Highway. A transportation network of buses, light rail, taxis provide convenient access to different parts of the New Territories, Kowloon and Hong Kong Island. Moreover, the KCRC West Rail, which has commenced operation since December 2003 with the terminus at Tuen Mun, has generated much shopping traffic to the Waldorf Garden Property.

The Manager's objective is to capitalise on its heavy shopper traffic and to increase its income through ongoing improvement in the tenant mix structure and asset enhancement works.



LOCATION No 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1982

GROSS FLOOR AREA (SF)¹ 80,842

GROSS RENTABLE AREA (SF)¹ 80,842

CARPARKS 73

ACQUISITION DATE 28 June 2005

ACQUISITION VALUE (HK\$M)² 400

VALUATION AT PURCHASE (HK\$M)² 430

LATEST VALUATION (HK\$M)¹ 480

LATEST VALUATION DATE 31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 98.9%

NUMBER OF TENANTS¹ 40

GROSS RENTAL (HK\$M)^{1,5} 13.6

NET PROPERTY INCOME (HK\$M)² 11.9

Notes:

1. As at 31 Dec 2005
2. As defined in the Unitholder's Circular dated 13 May 2005
3. As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
4. Includes licence income but excludes charge-out collections
5. For the 186-day period from 29 Jun 2005 to 31 Dec 2005



SMARTLAND



Smartland is located in the densely populated district of Tsuen Wan, New Territories, opposite the 1,026-room Panda Hotel. Situated near the Tai Wo Hau MTR station (a station along the mass transit railway line serving a number of districts in Kowloon and Hong Kong Island), it is easily accessible to shoppers, residents and tourists by public and private transport. The mall features a 32,000 sf supermarket and an identity card issuing Immigration Office intended to serve the whole of the Tsuen Wan district, which has approximately 275,500 residents.

The Manager's current objective for Smartland, is to capitalise on increasing shopper traffic and to become a leading mall in Tsuen Wan area.

LOCATION No 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong	ACQUISITION VALUE (HK\$M)² 258	GROSS RENTAL (HK\$M)⁴ 21.5
TITLE Government Leasehold until 30 June 2047	VALUATION AT PURCHASE (HK\$M)³ 265	NET PROPERTY INCOME (HK\$M) 20.0
YEAR OF COMPLETION 1981	LATEST VALUATION (HK\$M)¹ 396	Notes:
GROSS FLOOR AREA (SF)¹ 125,446	LATEST VALUATION DATE 31 December 2005	1. As at 31 Dec 2005
GROSS RENTABLE AREA (SF)¹ 123,544	VALUER Savills Valuation and Professional Services Limited	2. As defined in the Prospectus
CARPARKS 67	ACTUAL OCCUPANCY¹ 98.1%	3. As at 31 May 2003, valued by Chesterton
ACQUISITION DATE 12 August 2003	NUMBER OF TENANTS¹ 95	4. Includes licence income but excludes charge-out collections



THE HOUSEHOLD CENTER

The Household Center is located in a developed urban centre in Kwai Chung, New Territories. The mall caters for the daily needs of residents living in the developments nearby, including those of Nob Hill (a 696-unit residential development which the mall is part of) and the 13,110 residential units in Mei Foo Sun Chuen, Lai Yan Court, Wah Lai Estate, Lai King Estate, Regency Park, Wonderland Villas and Ching Lai Court.

The mall is conveniently located within walking distance of public transportation. It is within walking distance of Mei Foo MTR station, and is also strategically located near the new West Rail Mei Foo interchange station designed to cater for a peak hourly interchange of 25,000 passengers.

The Manager's current objective for The Household Center is to secure long term income growth by virtue of its location within the established and densely populated Mei Foo area by offering grocery shopping and educational facilities.



LOCATION No 8 King Lai Path
Kwai Chung, New Territories,
Hong Kong

TITLE Government Leasehold
until 16 July 2048

YEAR OF COMPLETION 2002

GROSS FLOOR AREA (SF)¹
100,599

GROSS RENTABLE AREA (SF)¹
91,779

CARPARKS 43

ACQUISITION DATE
12 August 2003

ACQUISITION VALUE (HK\$M)²
233

**VALUATION AT PURCHASE
(HK\$M)**³ 243

LATEST VALUATION (HK\$M)¹
315

LATEST VALUATION DATE
31 December 2005

VALUER Savills Valuation and
Professional Services Limited

ACTUAL OCCUPANCY¹ 98.0%

NUMBER OF TENANTS¹ 44

GROSS RENTAL (HK\$M)¹ 17.4

**NET PROPERTY INCOME
(HK\$M)** 16.2

Notes:

1. As at 31 Dec 2005
2. As defined in the Prospectus
3. As at 31 May 2003, valued by Chesterton
4. Includes licence income but excludes charge-out collections



JUBILEE COURT SHOPPING CENTRE



Jubilee Court Shopping Centre is located opposite Fo Tan KCRC station, near Shatin Racecourse and is one KCRC station away from The Chinese University of Hong Kong as well as Shatin town centre. It is part of the established 2,260-unit Jubilee Garden residential development. The mall is characterised by a number of tenants providing service and educational facilities including an elementary school, a kindergarten, a play group, a Christian centre and an immigration office.

The Manager's current objective for Jubilee Court Shopping Centre is to improve on its positioning as a leading community-based shopping centre and to maintain recurrent rental revenue.

LOCATION No 2-18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1986

GROSS FLOOR AREA (SF)¹
172,179

GROSS RENTABLE AREA(SF)¹
170,616

CARPARKS 97

ACQUISITION DATE
12 August 2003

ACQUISITION VALUE (HK\$M)²
218

VALUATION AT PURCHASE (HK\$M)³
237

LATEST VALUATION (HK\$M)⁴
310

LATEST VALUATION DATE
31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 95.7%

NUMBER OF TENANTS¹ 50

GROSS RENTAL (HK\$M)⁴ 19.3

NET PROPERTY INCOME (HK\$M) 16.6

Notes:

1. As at 31 Dec 2005
2. As defined in the Prospectus
3. As at 31 May 2003, valued by Chesterton
4. Includes licence income but excludes charge-out collections



TSING YI SQUARE PROPERTY

The Tsing Yi Square Property is located on Tsing Yi Island, to the northwest of Hong Kong Island. The Tsing Yi Square Property comprises 48 shops on the Ground Floor and 29 shops on the First Floor of a commercial/residential development known as "Tsing Yi Garden". The development was completed in 1986 and has 1,520 residential units above a commercial complex.

The Tsing Yi Square Property is situated opposite to the Tsing Yi Urban Service Complex Building, which consists of a wet and dry market, library, sports centre and government offices. It is also near many other public facilities such as Tsing Yi Swimming Pool, Tsing Yi Sports Ground, Tsing Yi Clinic and badminton courts serving the neighbourhood of Tsing Yi.

The Tsing Yi Square Property is situated within walking distance of Tsing Yi MTR Station, which provides convenient access to Hong Kong Island, Kowloon and Hong Kong International Airport. It is also easily accessible via buses, public light buses and taxis.

The Manager's current objective for Tsing Yi Square Property is to maintain its high occupancy level and to secure satisfactory rental reversions.



LOCATION No 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1986

GROSS FLOOR AREA (SF)¹ 78,836

GROSS RENTABLE AREA (SF)¹ 78,836

CARPARKS 27

ACQUISITION DATE 28 June 2005

ACQUISITION VALUE (HK\$M)² 230

VALUATION AT PURCHASE (HK\$M)³ 250

LATEST VALUATION (HK\$M)¹ 290

LATEST VALUATION DATE 31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 99.1%

NUMBER OF TENANTS¹ 58

GROSS RENTAL (HK\$M)^{4,5} 9.4

NET PROPERTY INCOME (HK\$M)² 8.4

Notes:

- As at 31 Dec 2005
- As defined in the Unitholder's Circular dated 13 May 2005
- As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
- Includes licence income but excludes charge-out collections
- For the 186-day period from 29 Jun 2005 to 31 Dec 2005



CENTRE DE LAGUNA PROPERTY



The Centre de Laguna Property comprises the commercial area on the Ground Floor of the commercial development known as “Centre de Laguna” and the kindergarten of Blocks 32 to 38 of Laguna City.

The Centre de Laguna Property is located in Phase 3 of the Laguna City residential development within the Kwun Tong district, which is a densely populated district comprising mainly large housing estates and industrial estates.

The Centre de Laguna Property is designed to serve the local shopping needs of the residents in the area. The Property was completed in 1992 and is part of the Laguna City residential development, a site of almost one million sf with about 8,072 residential units.

The Centre de Laguna Property is easily accessible by public and private transport, namely buses, public light buses, and taxis. It is also within walking distance of the Lam Tin MTR Station.

The Manager’s objective for Centre de Laguna Property is to maintain its high occupancy level and to secure satisfactory rental reversions.

LOCATION No 95 and 99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong	ACQUISITION VALUE (HK\$M)² 135	GROSS RENTAL (HK\$M)^{4,5} 4.9
TITLE Government Leasehold until 30 June 2047	VALUATION AT PURCHASE (HK\$M)³ 145	NET PROPERTY INCOME (HK\$M)⁵ 4.3
YEAR OF COMPLETION 1992	LATEST VALUATION (HK\$M)¹ 168	Notes:
GROSS FLOOR AREA (SF)¹ 43,000	LATEST VALUATION DATE 31 December 2005	1. As at 31 Dec 2005
GROSS RENTABLE AREA (SF)¹ 43,000	VALUER Savills Valuation and Professional Services Limited	2. As defined in the Unitholder’s Circular dated 13 May 2005
CARPARKS NA	ACTUAL OCCUPANCY¹ 99.4%	3. As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
ACQUISITION DATE 28 June 2005	NUMBER OF TENANTS¹ 20	4. Includes licence income but excludes charge-out collections
		5. For the 186-day period from 29 Jun 2005 to 31 Dec 2005



LIDO GARDEN PROPERTY & RHINE GARDEN PROPERTY

The Lido Garden Property comprises of 12 shop units on the Ground Floor of a commercial/residential development called "Lido Garden". It is located in Sham Tseng, a narrow strip of flat land along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge. It is a small residential area west of Tsuen Wan New Town.

The Property is part of the Lido Garden residential development, which was completed in 1989. The area is famous for its restaurants. It is easily accessible via buses, public light buses and taxis. The Manager's objective for Lido Garden Property is to maintain its high occupancy level and to secure satisfactory rental reversions.



LOCATION No 41-63 Castle Peak Road, Sham Tseng, Tsuen Wan New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1989

GROSS FLOOR AREA (SF)¹ 9,836

GROSS RENTABLE AREA (SF)¹ 9,836

CARPARKS NA

ACQUISITION DATE 28 June 2005

ACQUISITION VALUE (HK\$M)² 75

VALUATION AT PURCHASE (HK\$M)³ 80

LATEST VALUATION (HK\$M)¹ 95

LATEST VALUATION DATE 31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 100.0%

NUMBER OF TENANTS¹ 12

GROSS RENTAL (HK\$M)^{4,5} 3.5

NET PROPERTY INCOME (HK\$M)² 3.1

Notes:

1. As at 31 Dec 2005
2. As defined in the Unitholder's Circular dated 13 May 2005
3. As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
4. Includes licence income but excludes charge-out collections
5. For the 186-day period from 29 Jun 2005 to 31 Dec 2005

The Rhine Garden Property comprises various retail portions on the Ground floor of the podium of a commercial/residential development known as "Rhine Garden". It is located in Sham Tseng along the waterfront facing Tsing Ma Bridge and Ting Kau Bridge.

The Rhine Garden Property is part of the Rhine Terrace residential development, which was completed in 1992. It is expected that there will be significant population growth in the area with the full completion of some large residential projects in the vicinity.

The Manager's objective for Rhine Garden Property is to maintain its high occupancy level and to secure satisfactory rental reversions.



LOCATION No 38 Castle Peak Road, Sham Tseng, Tsuen Wan New Territories, Hong Kong

TITLE Government Leasehold until 30 June 2047

YEAR OF COMPLETION 1992

GROSS FLOOR AREA (SF)¹ 14,604

GROSS RENTABLE AREA (SF)¹ 14,604

CARPARKS NA

ACQUISITION DATE 28 June 2005

ACQUISITION VALUE (HK\$M)² 40

VALUATION AT PURCHASE (HK\$M)³ 43

LATEST VALUATION (HK\$M)¹ 54

LATEST VALUATION DATE 31 December 2005

VALUER Savills Valuation and Professional Services Limited

ACTUAL OCCUPANCY¹ 100.0%

NUMBER OF TENANTS¹ 4

GROSS RENTAL (HK\$M)^{4,5} 1.8

NET PROPERTY INCOME (HK\$M)² 1.6

Notes:

1. As at 31 Dec 2005
2. As defined in the Unitholder's Circular dated 13 May 2005
3. As at 31 Jan 2005, valued by Chesterton and Vigers, taking the lower of two valuations
4. Includes licence income but excludes charge-out collections
5. For the 186-day period from 29 Jun 2005 to 31 Dec 2005



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Moving forward, we are confident about the outlook for Fortune REIT in 2006 as the Hong Kong economy continues to strengthen and market sentiment remaining very strong.





BOARD OF DIRECTORS



CHIU KWOK HUNG, JUSTIN
Chairman



LIM HWEE CHIANG, JOHN
Director and Chief Executive Officer



IP TAK CHUEN, EDMOND
Director



YEUNG, EIRENE
Director



LIM LEE MENG
*Independent Director and
Chairman of Audit Committee*



CHENG MO CHI, MOSES
GBS, OBE, JP
Independent Director



**SNG SOW-MEI (PHOON SUI MOY,
ALIAS POON SOW MEI)**
Independent Director

CHIU KWOK HUNG, JUSTIN
Chairman

Mr. Chiu is the Chairman of the Manager. He is also the Chairman of ARA Trust Management (Suntec) Limited, the manager of Suntec Real Estate Investment Trust ("Suntec REIT") which is publicly listed on the SGX-ST and the Chairman of ARA Asset Management (Prosperity) Limited, the Manager of Prosperity Real Estate Investment Trust ("Prosperity REIT") which is publicly listed on the Hong Kong Stock Exchange. Mr. Chiu is also an executive director of Cheung Kong. He joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, marketing and property management team. He is also the Chairman of Al Islami Far Eastern Real Estate Fund Limited.

Mr. Chiu has more than 26 years of international experience in real estate in Hong Kong as well as other countries and is one of the most respected professionals in the property business in Hong Kong. He is also a financial columnist for two major newspapers in Hong Kong.

Prior to joining Cheung Kong, Mr. Chiu was with Hang Lung Development Company Limited for 15 years from 1979 to 1994 and Sino Land Company Limited for three years from 1994 to 1997. He was responsible for retail and commercial leasing as well as property management in those companies.

He holds a Bachelor of Sociology degree and a Bachelor of Economics degree from Trent University in Toronto and is a fellow of the Hong Kong Institute of Real Estate Administration. Mr. Chiu is also a member of the Shanghai Committee of the Chinese

People's Political Consultative Conference.

LIM HWEE CHIANG, JOHN
Director and Chief Executive Officer

Mr. Lim is a Director of the Manager. He is also the Director and Chief Executive Officer of the ARA group of companies, the Director of ARA Trust Management (Suntec) Limited, which is the manager of Suntec REIT and the Director of ARA Asset Management (Prosperity) Ltd, which is the manager of Prosperity REIT, listed in Hong Kong.

Mr. Lim has over 25 years of experience in real estate. From 1997 to 2002, Mr. Lim was an Executive Director of GRA (Singapore) Private Limited ("GRA"), which is a wholly-owned subsidiary of Prudential (US) Real Estate investors. Prior to joining GRA, he was the Founder and Managing Director of The Land Managers, a Singapore-based property and consulting firm specializing in feasibility studies, marketing and leasing management in Singapore, Hong Kong, and China, from 1996 to 1997. He was also the General Manager of Singapore Labour Foundation Management Services Pte Ltd for five years from 1991 to 1995. Prior to this, he worked for DBS Land Limited (now known as CapitaLand Limited after its merger with Pidemco Land Pte Ltd), a public listed Singapore-based real estate development and investment company for 10 years from 1981 to 1990.

Mr. Lim holds an Engineering degree (First Class Honours), a Master of Science degree as well as a Diploma in Business Administration from the National University of Singapore. He also sits on the board of Teckwah Industrial Corporation Ltd (as an independent director and a member of

the audit committee) and Inter-Roller Engineering Limited, both of which are publicly listed companies in Singapore.

IP TAK CHUEN, EDMOND
Director

Mr. Ip is a Director of the Manager. He is also a director of ARA Trust Management (Suntec) Limited, the manager of Suntec REIT. Mr. Ip is currently the Deputy Managing Director of Cheung Kong and since 1993, has been an Executive Director of Cheung Kong and is responsible for its finance department overseeing all financial and treasury functions of Cheung Kong and its subsidiaries, particularly in the field of corporate and project finance. He has been an Executive Director of Cheung Kong Infrastructure Holdings Limited ("CK Infrastructure") since its incorporation in May 1996 and Deputy Chairman since February 2003, and the Senior Vice President and Chief Investment Officer of CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") since June 2002, overseeing the corporate finance, strategic acquisition and investment of both companies. He is also a Non-Executive Director of Tom Group Limited.

Prior to joining Cheung Kong, he has held a number of senior financial positions in major financial institutions and has over 16 years of experience in the Hong Kong financial market covering diverse activities such as banking, capital market, corporate finance, securities brokerage and portfolio investments.

Mr. Ip holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration from the University of British Columbia.

YEUNG, EIRENE*Director*

Ms. Yeung is a Director of the Manager. She is also Director, Corporate Strategy Unit and Company Secretary of Cheung Kong, and the Company Secretary of CK Infrastructure and CK Life Sciences. Ms. Yeung joined Cheung Kong in 1994. She advises the Board on corporate strategy, and currently heads the corporate legal and secretarial team that oversees listing and regulatory compliance and corporate and commercial legal work of the above listed groups.

Ms. Yeung has extensive legal and corporate secretarial experience. Her experience covers many areas of law including corporate finance, general commercial, property development, finance, securities, tax and trust, joint ventures, intellectual property and employment. She has provided professional advice and support to the legal and regulatory aspects of significant corporate exercises of Cheung Kong and its subsidiaries such as the listing of CK Infrastructure in 1996, the restructuring of Cheung Kong and its subsidiaries in 1997 which involved a total of four listed companies, the listing of CK Life Sciences in 2002, CK Infrastructure's acquisition of the North of England Gas Distribution Network in 2004 and disposal of CK Infrastructure's electricity distribution networks in Australia to Spark Infrastructure Fund in 2005, CK Life Sciences' six acquisitions in 2004 and 2005 in Australia and Canada, and the listing of Prosperity REIT in Hong Kong in 2005.

Prior to joining Cheung Kong, she was in private practice at the law firms of Messrs. Robert W.H. Wang & Co (now

known as Robert Wang Solicitors) and Deacons for a total of 10 years from 1984 to 1994 where she handled a wide spectrum of corporate and commercial legal work. Ms. Yeung has been a solicitor of the High Court of the Hong Kong Special Administrative Region ("HKSAR") from 1986 and of the Supreme Court of Judicature in England and Wales from 1990.

Ms. Yeung holds a Bachelor of Laws degree from the University of Hong Kong, and a Master's degree in Business Administration and a Master's degree in Finance from The Chinese University of Hong Kong. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, and a Part-time Member of the Central Policy Unit of the HKSAR Government.

LIM LEE MENG*Independent Director and Chairman of Audit Committee*

Mr. Lim is a Director and Chairman of the Audit Committee of the Manager. He is currently a senior partner of Chio Lim & Associates, a member firm of RSM International. Mr. Lim is also an Independent Director of Teckwah Industrial Corporation Limited ("Teckwah"), Datapulse Technology Limited ("Datapulse"), Tye Soon Ltd ("Tye Soon"), Europtronic Group Ltd ("Europtronic") and ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). He also serves as the Chairman of the audit committees of Teckwah, Datapulse and Europtronic.

Mr. Lim is also a practising member of the Institute of Certified Public Accountants of Singapore, an

associate member of the Institute of Chartered Secretaries and Administrators and a member of the Singapore Institute of Directors.

Mr. Lim holds a Bachelor of Commerce (Accountancy) from the Nanyang University of Singapore. He also has a Master of Business Administration degree from the University of Hull (1992), a Diploma in Business Law from the National University of Singapore (1989) and an ICSA qualification from the Institute of Chartered Secretaries and Administrators.

CHENG MO CHI, MOSES**GBS, OBE, JP***Independent Director*

Mr. Cheng is a Director and member of the Audit Committee of the Manager. He is the Senior Partner of the law firm of Messrs. P.C. Woo & Co. and also serves as an independent Non Executive Director of a number of companies whose shares are listed on The Stock Exchange of Hong Kong Limited. Between 1991 and 1995, he was appointed and served as a member of the Legislative Council of Hong Kong. In recognition of his public services, he was awarded an OBE by Her Majesty the Queen of the United Kingdom and appointed a Justice of Peace by the Hong Kong Government in 1997. He was also awarded the Gold Bauhinia Star medal by the Hong Kong Special Administrative Region Government in 2003.

Mr. Cheng has been actively participating in community services. At the moment, he is the Chairman of the Council and the Court of the Hong Kong Baptist University, the Football Betting and Lotteries Commission, the

Opera Hong Kong and the Citizens Advisory Committee on Community Relations of the ICAC. He is also the Chairman of the Main Board and GEM Listing Committee of The Stock Exchange of Hong Kong Limited. He is also a member of the Education Commission of Hong Kong, the Court of the University of Hong Kong, the Council of the Hong Kong Academy for Performing Arts and the Advisory Committee on Corruption of the ICAC. He is the Founder Chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. In addition, he is an active Rotarian and served as District Governor of Rotary International District 3450 from 1993 to 1994. Further, he is also an active member of the Anglican Church and is the Chancellor of the Province of the Hong Kong Sheng Kung Hui.

Mr. Cheng holds a Bachelor of Laws from the University of Hong Kong and a Post-Graduate Certificate in Laws from the University of Hong Kong.

SNG SOW-MEI (PHOON SUI MOY, ALIAS POON SOW MEI)

Independent Director

Mrs. Sng is a Director and member of the Audit Committee of the Manager. She is also an Independent Non-Executive Director and member of the Audit Committee of Cheung Kong Infrastructure Limited, ARA Trust Management (Suntec) Limited, the manager of Suntec REIT and ARA Asset Management (Prosperity) Limited, the manager of Prosperity REIT.

Mrs. Sng is currently the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd, a member of the Singapore

Technologies Engineering Ltd which is listed on SGX-ST. Concurrently, she is an Advisor of InfoWave Pte Ltd, an associated company of ST Electronics (Info-Comm Systems) Pte Ltd, which is a wholly-owned subsidiary of Singapore Technologies Electronics Ltd. Mrs. Sng was the Director, Special Projects (North East Asia) in 2000 and a consultant in 2001 with the Singapore Technologies Pte Ltd. Prior to these appointments she was the Managing Director of CapitaLand Hong Kong Ltd for investments in Hong Kong and the region including Japan and Taiwan.

Mrs. Sng has spent 15 years from 1983 to 1997 in Hong Kong as the Centre Director and then as Regional Director of the Singapore Economic Development Board and Trade Development Board respectively, during which she promoted bi-lateral investment and trade between Singapore, Hong Kong and South China. Mrs. Sng was Singapore's Trade Commissioner in Hong Kong from 1990 and 1997.

Mrs. Sng holds a Bachelor of Arts degree from the Nanyang University in Singapore and has wide experience in various fields of industrial, investment, business development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) - Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver) by the former President of Singapore Mr. Ong Teng Cheong, in recognition of her service.

MANAGEMENT TEAM

SOON YAN SEEN, ELIZABETH

Executive Director

Ms. Soon is an Executive Director of the Manager and is responsible for the management of assets of Fortune REIT. This encompasses strategic planning, overseeing investment acquisition, divestment and enhancement of assets in accordance with investment strategy. She is also involved in setting risk management policies of Fortune REIT.

Ms. Soon was a Director and the Head of Pacific Basin Investment of a major European insurance company for over three years from 2002 to 2005. She was responsible for the overall investment of Pacific Basin assets of the company. This involved asset allocation and stock selection for the funds under management in Asia.

Ms. Soon has over 15 years of investment management experience. Between 1992 to 2002, Ms. Soon was a director of a UK listed investment management company. She was the Head of Asia ex-Japan and the fund manager of various institutional and unit trust funds. She chaired the Far East Asset Allocation Committee and was a member of the Global Asset Allocation Committee.

Ms. Soon holds a Master of Business Administration degree, a Bachelor of Accountancy degree and is a qualified Chartered Financial Analyst. She previously served on the Executive Committee of the Hong Kong Investment Funds Association and was the Vice-Chairman of the China Subcommittee of the Association. She is currently a Fellow of the Hong Kong Institute of Directors.

SEOW BEE LIAN, CHERYL

Finance Manager

Ms. Seow is the Finance Manager of the Manager. She has more than 15 years of commercial experience. Prior to joining the Manager, she was a consultant providing accounting and consultancy services to small and medium enterprises. She was the Deputy Financial Controller and Company Secretary of listed company, L.C. Development Ltd ("LC Development"). LC Development's principal activities include investment and development of properties as well as owning and managing hotels and serviced apartments in Australia, PRC, Laos, Thailand, Vietnam and the United Kingdom. Ms. Seow oversaw the financial and corporate secretarial matters of LC Development and its subsidiaries.

Prior to joining LC Development, Ms. Seow was the Finance Manager in the Corporate Finance Department of Royal Sporting House from 1994 to 1997. She was in charge of corporate restructuring matters and cash flow management. Ms. Seow has also worked in Lum Chang Holdings Limited ("Lum Chang") from 1990 to 1993 where she handled the finance, internal audit as well as corporate secretarial matters of Lum Chang and its subsidiaries.

Ms. Seow started her career with Deloitte & Touche, Singapore in 1988 where she was involved in the audit and tax assignments of varied industries.

Ms. Seow, who is a Singapore citizen, graduated from the National University of Singapore School of Accountancy and is a Certified Public Accountant with the Institute of Certified Public Accountants of Singapore.

CHIU YU, JUSTINA

Senior Manager, Investment and Investor Relations

Ms. Chiu is the Senior Investment and Investor Relations Manager of the Manager. Apart from managing investor relations activities, Ms. Chiu is also responsible for identifying, researching and evaluating potential acquisitions or divestments in consistent with the Manager's investment strategy with a view to enhance Fortune REIT's portfolio.

Prior to joining the Manager in 2003, she worked in the Commercial Department of Hutchison 3G (UK) Limited in London, where she was involved in various functions of the firm including finance, investment and marketing.

Ms. Chiu holds a Bachelor of Science in Accounting and Finance degree and a Postgraduate Diploma of Law. She received a Master of Science in Real Estate Economics and Finance degree from the London School of Economics and Political Science. She is also a Chartered Financial Analyst charterholder.

Ms. Chiu is the daughter of Mr. Chiu Kwok Hung, Justin, the Chairman of the Manager.

LAI WAI KIT, BENSON

Asset Manager

Mr. Lai is the Asset Manager of the Manager and is responsible for leasing, marketing, and strategic planning of the assets under the Manager.

Mr. Lai graduated with a Bachelor of Arts degree in Economics from York University, Canada and he is also a member of Ontario Real Estate Association.

Mr. Lai has over 8 years of experience in leasing, marketing and property management with a number of major property developers in Hong Kong and Canada.

Prior to joining the Manager in 2004, Mr. Lai was the Rental Manager of a listed Canadian property development company, responsible for leasing and property management of residential, office and retail complexes in downtown and suburban areas. Mr. Lai has also been a credit analyst in a publishing company in Canada, where he was responsible for overseeing its research, business development, client relations, credit collection and accounting activities.

NG KA TAT, DESMOND

Strategic Planning Manager

Mr. Ng is the Strategic Planning Manager of the Manager and is responsible for the formulation of a coherent portfolio strategy and asset enhancement plan for Fortune REIT. Working closely with the Senior Investment and Investor Relations Manager, he also participates in the feasibility analysis on the viability of new acquisitions and to make investment recommendations.

Mr. Ng has nine years of experience in real estate industry, specialising in property investment and development. Prior to joining the Manager, Mr. Ng was the Valuation and Development Manager for Hysan Development Company Limited, being responsible for the evaluation of real estate acquisition opportunities and development/renovation projects of the company.

From 1998 to 2004, Mr. Ng worked in the Strategic Development Consultancy Division of CB Richard Ellis. As an Associate Director, his responsibilities included conducting financial appraisals of property investment opportunities on behalf of developers and landowners, and undertaking feasibility studies of property development projects.

Mr. Ng holds a Bachelor of Science degree in Surveying from the University of Hong Kong and a Bachelor degree in Accounting and Finance from the University of London. He is a Registered Professional Surveyor (General Practice).

TAN WEE SZE

Assistant Finance Manager

Ms. Tan is the Assistant Finance Manager of the Manager. She is primarily responsible for the financial accounting of Fortune REIT.

Prior to joining the Manager in 2005, she was a Finance Manager of a petrochemical trading company from 2004 to 2005 where she handled the finance matters of the company and its subsidiaries.

From 1999 to 2004, she was the Finance & Administrative Manager of Ban Joo & Company Limited ("Ban Joo"), a company which is listed on the SGX-ST. She handled the finance, administration and corporate secretarial matters of Ban Joo and its subsidiaries.

Ms. Tan began her career in 1994 with Chio Lim & Associates, an international accounting firm where she managed the audit assignments of several private and publicly listed companies of various industries including construction, trading and service.

Ms. Tan, who is a Singapore citizen, graduated from the Nanyang Technological University and holds a degree in the Bachelor of Accountancy. She is a Certified Public Accountant with the Institute of Certified Public Accountants of Singapore.

INVESTOR RELATIONS

Communication with Unitholders

The listing rules of the SGX-ST require that a listed entity discloses to the market matters that could or might be expected to have a material effect on the price of the entity's securities. The Manager upholds a strong culture of continuous disclosure and transparent communication with Fortune REIT stakeholders and the investing community. Its disclosure policy requires timely and full disclosure of all material information relating to Fortune REIT by way of public releases or announcements through the SGX-ST via SGXNET at first instance (www.sgx.com.sg) and subsequently including the release on Fortune REIT's website at www.fortunereit.com.

During the year, the Manager has conducted regular briefings with analysts and media representatives in Hong Kong and Singapore. During these briefings, management will review Fortune REIT's most recent performance as well as discuss the business outlook for Fortune REIT. In line with the Manager's disclosure policy, these briefing materials were promptly released to the SGX-ST and also made available at Fortune REIT's website.

The Manager also arranged regular meetings with institutional investors and participated in industry conferences and seminars in both Hong Kong and Singapore during the year.

Going forward, investor relations will continue to be an important part of the Manager's business objective. The Manager aims to maintain high levels of transparency and corporate governance to Unitholders and to continue its efforts to promote investor awareness in Fortune REIT.

Distributions

Fortune REIT pays distributions semi-annually. The distribution ex-dates are likely to be in early February and early August with the payment dates in late February and late August every year.

Fortune REIT is exempt from Singapore income tax on dividends received from the Hong Kong property companies where these dividends are distributed out of income which has been subject to Hong Kong profits tax at a rate of not less than 15%.

Unitholders receiving distributions made by Fortune REIT out of such tax-exempt income are also not liable for Singapore income tax.

Enquiries

Interested parties are welcome to contact the Manager via the following contact details:

Telephone: +65 6835 9232 / +852 2169 0928

Fascimile: +65 6835 9672 / +852 2169 0968

E-mail: enquiries@fortunereit.com

Moreover, Fortune REIT's website (www.fortunereit.com) contains detailed information about Fortune REIT's assets as well as all public disclosures made. The site is updated regularly and includes a free email alert service open to all.

Key dates in 2006

Results announcement, 2005 final	24 Jan 2006
Distribution ex-date, 2005 final	2 Feb 2006
Distribution paid, 2005 final	28 Feb 2006
Report published, 2005 annual	Early Mar 2006
Results announcement, first quarter 2006	Early May 2006
Results announcement, first half 2006	Late Jul 2006
Distribution ex-date, 2006 interim	Early Aug 2006
Distribution paid, 2006 interim	Late Aug 2006
Results announcement, third quarter 2006	Early Nov 2006
Results announcement, 2006 final	Late Jan 2007
Distribution ex-date, 2006 final	Early Feb 2007
Distribution paid, 2006 final	Late Feb 2007
Report published, 2006 annual	Early Mar 2007

CORPORATE GOVERNANCE

ARA Asset Management (Singapore) Limited, as the Manager of Fortune REIT, has adopted an overall corporate governance framework that is designed to meet best practices principles and which recognises that an effective corporate governance culture is critical to the performance of the Manager and consequently, the success of Fortune REIT, which it manages. In particular, the Manager has an obligation to act honestly, with due care and diligence, and in the best interests of the Unitholders.

The following segments describe the Manager's main corporate governance policies and practices. They encompass proactive measures for avoiding situations of conflict and potential conflict of interest, including prioritising the interests of the Unitholders over the Manager's, ensuring that applicable laws and regulations are complied with, and that the Manager's obligations under Fortune REIT's trust deed (the "Trust Deed") are properly and efficiently carried out.

THE MANAGER OF FORTUNE REIT

The Manager has general powers of management over the assets of Fortune REIT. The Manager's main responsibility is to manage Fortune REIT's assets and liabilities for the benefit of Unitholders.

The primary role of the Manager is to set the strategic direction of Fortune REIT and give recommendations to HSBC Institutional Trust Services (Singapore) Limited, as trustee of Fortune REIT (the "Trustee"), on the acquisition, divestment and enhancement of assets of Fortune REIT in accordance with its stated investment strategy.

Other main functions and responsibilities of the Manager include:

1. Using its best endeavours to ensure that the business of Fortune REIT is carried out and conducted in a proper and efficient manner and to conduct all transactions with or for Fortune REIT at arm's length.
2. Preparing property plans on a regular basis, which may contain proposals and forecasts on net income, capital expenditure, sales and valuations, explanations of major variances to previous forecasts, written commentary on key issues and underlying assumptions on inflation, annual turnover, occupancy costs and any other relevant assumptions. The purpose of these plans is to explain the performance of Fortune REIT's assets.
3. Ensuring compliance with the applicable provisions of the Securities and Futures Act, Chapter 289 of Singapore and all other relevant legislation, the Listing Manual issued by SGX-ST, the Code on Collective Investment Schemes issued by Monetary Authority of Singapore ("MAS"), including the Property Funds Guidelines, the Trust Deed, the tax ruling dated 10 June 2003 issued by the Ministry of Finance of Singapore and all relevant contracts.
4. Attending to all regular communications with Unitholders.
5. Supervising the property managers of Fortune REIT (the "Property Manager"), which provides property management, lease management, and marketing services in relation to Fortune REIT's properties, pursuant to the property management agreements.

Fortune REIT, constituted as a trust, is externally managed by the Manager and accordingly, it has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations of the Manager. All directors and employees of the Manager are remunerated by the Manager, and not Fortune REIT.

BOARD OF DIRECTORS OF THE MANAGER

The Board of Directors of the Manager (the "Board") is entrusted with the responsibility for the overall management of the Manager. The Board is responsible for the overall corporate governance of the Manager including establishing goals for management and monitoring the achievement of these goals. The Board is also responsible for the strategic business direction and risk management of Fortune REIT. All Board members participate in matters relating to corporate governance, business operations and risks, financial performance and the nomination and review of directors. The Board has established a framework for the management of the Manager and Fortune REIT, including a system of internal control and a business risk management process.

The Board meets to review the Manager's key activities, including its business strategies for Fortune REIT. Board meetings are held once every quarter (or more often if necessary) to discuss and review the strategies and policies of Fortune REIT, including any significant acquisitions and disposals, the annual budget, the financial performance of Fortune REIT against a previously approved budget, and approve the release of the quarterly, half year and full year results. The Board also reviews the risks to the assets of Fortune REIT, and acts upon any comments from the auditors of Fortune REIT. Where necessary, additional Board meetings would be held to address significant transactions or issues.

The Board has adopted a set of internal controls which it believes is adequate and appropriate delegations of authority has been provided to the management to facilitate operational efficiency.

Changes to regulations, policies and accounting standards are monitored closely. Where the changes have an important impact on Fortune REIT and its disclosure obligations, the directors are briefed either during a Board meeting, at specially-convened sessions or via circulation of Board papers.

The Board presently consists of seven members, three of whom are independent directors. The Chairman of the Board is Mr. Chiu Kwok Hung, Justin. The Chief Executive Officer, who is also a Director, is Mr. Lim Hwee Chiang, John.

The composition of the Board is determined using the following principles:

1. The Chairman of the Board should be a non-executive director;
2. The Board should comprise directors with a broad range of commercial experience including expertise in fund management and the property industry; and
3. At least one-third of the Board should comprise independent directors.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

Five Board meetings were held during the financial year. The most recent Board meeting was held on 24 January 2006.

The positions of Chairman and Chief Executive Officer are held by two separate persons in order to maintain an effective segregation of duties. The Chairman ensures that the members of the Board work together with management in a constructive manner to address strategies, business operations and enterprise issues. The Chief Executive Officer has full executive responsibilities over the business direction and operational decisions concerning the management of Fortune REIT.

At least one-third of the Board are independent directors. This enables management to benefit from their external and objective perspective of issues that are brought before the Board. A healthy exchange of ideas and views between the Board and management through regular meetings and updates will enhance the management of Fortune REIT. This, together with a clear separation of roles between the Chairman and Chief Executive Officer, provide a healthy and professional relationship between the Board and management.

In future, any newly appointed directors will be given briefings by the management on the business activities of Fortune REIT and its strategic directions.

AUDIT COMMITTEE

The Board has established an Audit Committee to assist it in discharging its responsibilities.

The Audit Committee is appointed by the Board from among the members of the Board and is presently composed of three members, all of whom (including the Chairman of the Audit Committee) are independent directors. The members of the Audit Committee are Mr. Lim Lee Meng, Mr. Cheng Mo Chi, Moses and Mrs. Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei). The Audit Committee meets at least four times a year.

Five Audit Committee meetings were held during the financial year. The most recent Audit Committee meeting was held on 24 January 2006.

In keeping with best practices in corporate governance, the Board has established that a majority of the members of the Audit Committee (including the Chairman of the Audit Committee) are required to be independent directors.

The role of the Audit Committee is to monitor and evaluate the effectiveness of the Manager's internal controls. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports. The Audit Committee is responsible for the nomination of external auditors and internal auditors, and reviewing the adequacy of existing audits in respect of cost, scope and performance. The Audit Committee meets with the external auditors, and with the internal auditors, without the presence of the management, at least annually.

The Audit Committee's responsibilities also include:

1. Reviewing external and internal audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by management;
2. Monitoring the procedures in place to ensure compliance with applicable legislation, the Listing Manual and the Property Funds Guidelines;
3. Reviewing and approving the financial statements and auditors' report; and
4. Monitoring the procedures established to regulate Related Party Transactions (as defined below), including ensuring compliance with the provisions of the Listing Manual relating to transactions between the Trustee (as the trustee of Fortune REIT) and an "interested person", and the provisions of the Property Funds Guidelines relating to transactions between the Trustee (as the trustee of Fortune REIT) and an "interested party" (both such types of transactions constituting "Related Party Transactions").

The Audit Committee is authorised to investigate any matters within its terms of reference. It is entitled to full access to and co-operation by management and enjoys full discretion to invite any director or executive officer of the Manager to attend its meetings. The Audit Committee has full access to reasonable resources to enable it to discharge its functions properly.

The Audit Committee has also conducted a review of all non-audit services provided by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. No non-audit fees were paid to the external auditors during the financial year under review except as disclosed in the notes to the financial statements.

INTERNAL AUDIT

The Manager has put in place a system of internal controls of procedures and processes to safeguard Fortune REIT's assets, Unitholders' interest as well as to manage risk.

The internal audit function of the Manager is out-sourced to BDO McCabe Lo Limited, a member firm of BDO International. The Audit Committee is satisfied that the internal auditor has met the standards set by internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The internal auditor reports directly to the Audit Committee on audit matters, and to Board of Directors on administrative matters. The Audit Committee also reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the internal auditor has adequate resources to perform its functions and has to the best of its ability, maintained its independence from the activities that it audits.

DEALINGS IN FORTUNE REIT UNITS

In general, the Manager's policy encourages the directors and employees of the Manager to hold Units but prohibits them from dealing in such Units:

1. During the period commencing one month before the public announcement of Fortune REIT's annual, semi-annual and as applicable, quarterly results and (where applicable) property valuation and ending on the date of announcement of the relevant results; and
2. At any time whilst in possession of price sensitive information.

In addition, the Manager has given an undertaking to the MAS that it will announce to the SGX-ST the particulars of its holdings in the Units and any changes thereto within two business days after the date on which it acquires or disposes of any Units, as the case may be. The Manager has also undertaken that it will not deal in the Units during the period commencing one month before the public announcement of Fortune REIT's annual, semi-annual and as applicable, quarterly results and (where applicable) property valuation, and ending on the date of announcement of the relevant results.

RISK ASSESSMENT AND MANAGEMENT OF BUSINESS RISK

Effective risk management is a fundamental part of Fortune REIT's business strategy. Recognising and managing risk is central to the business and to protecting Unitholders' interests and value. Fortune REIT operates within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed to understand the risks involved. Responsibility for managing risk lies initially with the business unit concerned, working within the overall strategy outlined by the Board.

The Board meets quarterly or more often if necessary and reviews the financial performance of Fortune REIT against a previously approved budget. The Board also reviews the risks to the assets of Fortune REIT, and acts upon any comments of the auditors of Fortune REIT. In assessing business risk, the Board considers the economic environment and the property industry risk. Management meets weekly to review the operations of Fortune REIT and discuss continuous disclosure issues.

DEALING WITH CONFLICTS OF INTEREST

The Manager has instituted the following procedures to deal with potential conflicts of interest issues which the Manager may encounter in managing Fortune REIT:

1. The Manager will be a dedicated manager to Fortune REIT and will not manage any other real estate investment trust which invests in the same type of properties as Fortune REIT or be involved in any other real property business.
2. The entry into any Related Party Transaction must be reviewed and/or approved by the Audit Committee by a majority vote.
3. At least one-third of the Board shall comprise independent directors.

It is also provided in the Trust Deed that if the Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the Trustee for and on behalf of Fortune REIT with a related party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) which shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee (as trustee of Fortune REIT) has a *prima facie* case against the party allegedly in breach under such agreement, the Manager shall be obliged to take appropriate action in relation to such agreements. The directors of the Manager will have a duty to ensure that the Manager so complies. Notwithstanding the foregoing, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for and on behalf of Fortune REIT with a related party of the Manager and the Trustee may take such action as it deems necessary to protect the rights of Unitholders and/or which is in the interests of Unitholders. Any decision by the Manager not to take action against a related party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such related party.

Under the Trust Deed, the Manager and its related parties are prohibited from voting at or being part of a quorum for any meeting of Unitholders convened to approve any matter in which the Manager or any of its related parties has a material interest in the business to be conducted.

DEALING WITH RELATED PARTY TRANSACTIONS

Review Procedures for Related Party Transactions

In general, the Manager has established internal control procedures to ensure that all future transactions involving the Trustee, as trustee of Fortune REIT, and whether by itself or through the property companies which own the investment properties forming the portfolio of Fortune REIT or other single purpose companies or a related party of the Manager or Fortune REIT are undertaken on an arm's length basis and on normal commercial terms, and will not be prejudicial to the interests of Fortune REIT and the Unitholders. As a general rule, the Manager must demonstrate to the Audit Committee that such transactions satisfy the foregoing criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the Manager, or obtaining one or more valuations from independent professional valuers (in accordance with the Property Funds Guidelines).

In addition, the following procedures will be undertaken:

1. Transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding S\$100,000 in value but below 3.0% of the value of Fortune REIT's net tangible assets will be subject to review by the Audit Committee at regular intervals;
2. Transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding 3.0% but below 5.0% of the value of Fortune REIT's net tangible assets will be subject to the review and approval of the Audit Committee. Such approval shall only be given if the transactions are on normal commercial terms and are consistent with similar types of transactions made by the Trustee (as trustee of Fortune REIT) with third parties which are unrelated to the Manager; and
3. Transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding 5.0% of the value of Fortune REIT's net tangible assets will be reviewed and approved, on the basis described in the preceding paragraph, by the Audit Committee which may, as it deems fit, request advice on the transaction from independent sources or advisers, including the obtaining of valuations from independent professional valuers. Further, under the Listing Manual and the Property Funds Guidelines, such transactions would have to be approved by the Unitholders at a meeting of Unitholders.

Where matters concerning Fortune REIT relate to transactions entered into or to be entered into by the Trustee (as trustee of Fortune REIT) with a related party of the Manager or Fortune REIT, the Trustee is required to consider the terms of such transactions to satisfy itself that such transactions are conducted on arm's length basis and on normal commercial terms, are not prejudicial to the interests of Fortune REIT and the Unitholders, and are in accordance with all applicable requirements of the Property Funds Guidelines and/or the Listing Manual relating to the transaction in question. Further, the Trustee (as trustee of Fortune REIT) has the ultimate discretion under the Trust Deed to decide whether or not to enter into a transaction involving a related party of the Manager or Fortune REIT. If the Trustee (as trustee of Fortune REIT) is to sign any contract with a related party of the Manager or Fortune REIT, the Trustee will review the contract to ensure that it complies with the requirements relating to interested party transactions in the Property Funds Guidelines (as may be amended from time to time) and the provisions of the Listing Manual relating to interested person transactions (as may be amended from time to time) as well as such other guidelines as may from time to time be prescribed by the MAS and the SGX-ST to apply to real estate investment trusts.

Role of the Audit Committee for Related Party Transactions and Internal Control Procedures

All Related Party Transactions will be subject to regular periodic reviews by the Audit Committee. The Manager's internal control procedures are intended to ensure that Related Party Transactions are conducted on arm's length basis and on normal commercial terms and are not prejudicial to Unitholders.

The Manager will maintain a register to record all Related Party Transactions (and the bases, including any quotations from unrelated parties and independent valuations obtained to support such bases, on which they are entered into) which are entered into by Fortune REIT. The Manager will incorporate into its internal audit plan a review of all Related Party Transactions entered into by Fortune REIT. The Audit Committee shall review the internal audit reports to ascertain that the guidelines and procedures established to monitor Related Party Transactions have been complied with. In addition, the Trustee will also have the right to review such audit reports to ascertain that the Property Fund Guidelines have been complied with. The Audit Committee will periodically review all Related Party Transactions to ensure compliance with the Manager's internal control procedures and with the relevant provisions of the Listing Manual and the Property Funds Guidelines. The review will include the examination of the nature of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee.

If a member of the Audit Committee has an interest in a transaction, he is required to abstain from participating in the review and approval process in relation to that transaction.

The Manager will disclose in Fortune REIT's annual report the aggregate value of Related Party Transactions entered into during the relevant financial period/year.

COMMUNICATION WITH UNITHOLDERS

The Listing Manual of the SGX-ST requires that a listed entity discloses to the market matters that would be likely to have a material effect on the price of the entity's securities. The Manager upholds a strong culture of continuous disclosure and transparent communication with Fortune REIT Unitholders and the investing community. The Manager's Investor Relations Manager is tasked with overseeing this function. The Manager's disclosure policy requires timely and full disclosure of all material information relating to Fortune REIT by way of public releases or announcements through the SGX-ST via SGXNET at first instance and then including the release on Fortune REIT's website at www.fortunereit.com.

The Manager also conducts regular briefings for analysts and media representatives, which will generally coincide with the release of Fortune REIT's results. During these briefings, management will review Fortune REIT's most recent performance as well as discuss the business outlook for Fortune REIT. In line with the Manager's objective of transparent communication, briefing materials are released through the SGX-ST via SGXNET and also made available at Fortune REIT's website.

The Manager pursues opportunities to educate and keep retail investors informed of the emergence of the real estate investment trust industry through seminars such as those organised by SGX-ST and the Real Estate Developers' Association of Singapore.

BOARD COMPOSITION AND AUDIT COMMITTEE

The Manager believes that contributions from each director go beyond his/her attendances at Board and committee meetings. A director of the Manager would have been appointed on the principles outlined earlier in this statement, and his/her ability to contribute to the proper guidance of the Manager in its management of Fortune REIT.

The three Board members who have additional responsibilities on the Audit Committee are Mr. Lim Lee Meng (Chairman of the Audit Committee), Mr. Cheng Mo Chi, Moses and Mrs. Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei) (members of the Audit Committee).

The matrix of the Board members participation in the various Board and Audit Committee Meetings is as follows:

Board Members	Board Meetings		Audit Committee Meetings	
	Participation	Attendance / Number of Meetings held	Participation	Attendance / Number of Meetings held
Mr. Chiu Kwok Hung, Justin	Chairman	5/5	NA	NA
Mr. Lim Hwee Chiang, John	Member	5/5	NA	NA
Mr. Ip Tak Chuen, Edmond	Member	3/5	NA	NA
Ms. Yeung, Eirene	Member	5/5	NA	NA
Mr. Lim Lee Meng	Member	5/5	Chairman	4/4
Mr. Cheng Mo Chi, Moses	Member	4/5	Member	3/4
Mrs. Sng Sow-Mei	Member	5/5	Member	4/4

Notes: NA – Not applicable

All board members are non-executive except Mr. Lim Hwee Chiang, John who is an executive director.

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REPORT OF THE TRUSTEE

HSBC Institutional Trust Services (Singapore) Limited (the "Trustee") is under a duty to take into custody and hold the assets of Fortune Real Estate Investment Trust ("Fortune REIT") held by it or through its property companies ("Group", which shall mean Fortune REIT and its property companies) in trust for the holders of Units (the "Unitholders") in Fortune REIT. In accordance with the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes (collectively referred to as the "laws and regulations"), the Trustee shall monitor the activities of ARA Asset Management (Singapore) Limited ("the Manager") for compliance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed dated 4 July 2003 (as amended by the Amending and Restating Deed dated 29 June 2005) between the Trustee and the Manager (the "Trust Deed") in each annual accounting year and report thereon to Unitholders in an annual report which shall contain the matters prescribed by the laws and regulations and the Trust Deed.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed Fortune REIT and the Group during the financial year covered by these financial statements in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed, laws and regulations and otherwise in accordance with the provisions of the Trust Deed.

For and on behalf of the Trustee
HSBC Institutional Trust Services (Singapore) Limited



Arjun K Bambawale
Director

Singapore
24 January 2006

STATEMENT BY THE MANAGER

In the opinion of the directors of ARA Asset Management (Singapore) Limited, the financial statements of Fortune Real Estate Investment Trust ("Fortune REIT") and the consolidated financial statements of the Group set out on pages 52 to 88, comprising the Balance Sheets, Statements of Return, Statements of Movement in Unitholders' Funds, Consolidated Cash Flow Statement and Notes to the financial statements are properly drawn up in accordance with the provisions of the Trust Deed and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of Fortune REIT and of the Group as at 31 December 2005, and of the return and movement in Unitholders' funds of Fortune REIT and of the Group and cash flows of the Group for the financial year then ended. At the date of this statement, there are reasonable grounds to believe that Fortune REIT will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager,
ARA Asset Management (Singapore) Limited



Lim Hwee Chiang, John
Director

Singapore
24 January 2006

AUDITORS' REPORT

To the Unitholders of Fortune Real Estate Investment Trust

We have audited the financial statements of Fortune Real Estate Investment Trust ("Fortune REIT") and the consolidated financial statements of the Group for the financial year ended 31 December 2005 set out on pages 52 to 88. These financial statements are the responsibility of the Trustee and the Manager of Fortune REIT. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of Fortune REIT and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Trust Deed and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of Fortune REIT and of the Group as at 31 December 2005 and of the return and movement in Unitholders' funds of Fortune REIT and of the Group and cash flows of the Group for the financial year then ended.

The logo for Deloitte & Touche, featuring the company name in a stylized, cursive script.

Certified Public Accountants

Cheng Ai Ping
Partner

Singapore
24 January 2006

BALANCE SHEETS

As at 31 December 2005

	Note	Group		Fortune REIT	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES					
Current assets					
Cash and bank balances	6	213,145	103,622	124,408	58,175
Trade and other receivables	7	48,034	33,906	156,527	78,515
Investment properties held for resale	8	73,000	-	-	-
Derivative assets	9	14,272	-	-	-
Total current assets		348,451	137,528	280,935	136,690
Non-current assets					
Loans to property companies	10	-	-	-	1,557,799
Investments in property companies	11	-	-	3,939,224	531,486
Investment properties	8	8,519,000	4,184,000	-	-
Plant and equipment	12	357	31	-	-
Negative goodwill	13	-	(134,410)	-	-
Total non-current assets		8,519,357	4,049,621	3,939,224	2,089,285
Total assets		8,867,808	4,187,149	4,220,159	2,225,975
Current liabilities					
Trade and other payables	14	189,239	66,295	7,099	4,614
Short-term borrowing	15	12,000	26,000	-	-
Provision for taxation		5,825	5,566	203	19
Total current liabilities		207,064	97,861	7,302	4,633
Non-current liabilities					
Borrowings	15	2,366,888	900,000	-	-
Deferred tax liabilities	16	78,707	55,556	-	-
Total non-current liabilities		2,445,595	955,556	-	-
Total liabilities		2,652,659	1,053,417	7,302	4,633
Net assets		6,215,149	3,133,732	4,212,857	2,221,342
UNITHOLDERS' FUNDS					
Equity and reserves					
Issued equity	17	4,287,901	2,245,560	4,287,901	2,245,560
Unit issue costs	18	(173,097)	(87,540)	(173,097)	(87,540)
Revaluation reserve		-	908,200	-	-
Hedging reserve		14,272	-	-	-
Accumulated profits		2,086,073	67,512	98,053	63,322
Net Unitholders' funds		6,215,149	3,133,732	4,212,857	2,221,342
Units in issue ('000)		801,922	475,169		
Adjusted net asset value per unit (HK\$)	19	7.72	6.87		

See accompanying notes to financial statements.

STATEMENTS OF RETURN

Year ended 31 December 2005

	Note	Group		Fortune REIT	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Revenue	20	452,905	308,209	217,330	160,278
Property operating expenses	21	(129,675)	(94,495)	-	-
Net property income/dividend income		323,230	213,714	217,330	160,278
Amortisation of negative goodwill	13	-	3,154	-	-
Negative goodwill	2	141,169	-	-	-
Manager's base fee		(18,688)	(10,796)	(18,688)	(10,796)
Foreign currency exchange adjustment (loss)/gain		(240)	830	(240)	830
Net trust expenses	22	(7,060)	(3,381)	(7,060)	(3,381)
Profit before taxation and borrowing costs		438,411	203,521	191,342	146,931
Gain on revaluation of properties	8	799,295	-	-	-
Borrowing costs	23	(59,133)	(19,475)	-	-
Profit before taxation		1,178,573	184,046	191,342	146,931
Income tax expenses	24	(46,195)	(33,963)	(184)	(11)
Net profit		1,132,378	150,083	191,158	146,920
Income available for distribution	25	216,731	158,756		
Basic earnings per unit (cents)					
- weighted average	26	176.14	31.61		
Adjusted basic earnings per unit (cents)					
- notional	26	47.73	31.58		
Distribution per unit (cents)	27	33.69	33.40		

See accompanying notes to financial statements.

STATEMENTS OF MOVEMENT IN UNITHOLDERS' FUNDS

Year ended 31 December 2005

	Note	Issued equity HK\$'000	Unit issue costs HK\$'000	Revaluation reserve HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Net HK\$'000
GROUP							
Net assets at 1 January 2004		2,235,365	(89,101)	113,850	-	57,030	2,317,144
OPERATIONS FOR YEAR ENDED 31 DECEMBER 2004							
Net profit for the year		-	-	-	-	150,083	150,083
Appreciation on revaluation of investment properties		-	-	794,350	-	-	794,350
Increase in net assets resulting from operations		-	-	794,350	-	150,083	944,433
UNITHOLDERS' TRANSACTIONS							
Creation of Units:							
Manager's base fees paid in Units	17	10,195	-	-	-	-	10,195
Distribution to Unitholders	27	-	-	-	-	(139,601)	(139,601)
Adjustments to Unit issue costs		-	1,561	-	-	-	1,561
Increase (Decrease) in net assets resulting from Unitholders' transactions		10,195	1,561	-	-	(139,601)	(127,845)
Net assets at 31 December 2004		2,245,560	(87,540)	908,200	-	67,512	3,133,732
Effects on adoption of new accounting policies							
FRS 39	2	-	-	-	(11,902)	-	(11,902)
FRS 40	2	-	-	(908,200)	-	908,200	-
FRS 103	2	-	-	-	-	134,410	134,410
As restated		2,245,560	(87,540)	-	(11,902)	1,110,122	3,256,240
OPERATIONS FOR YEAR ENDED 31 DECEMBER 2005							
Net profit for the year		-	-	-	-	1,132,378	1,132,378
Cashflow hedge:							
Transferred to Statement of Return		-	-	-	11,902	-	11,902
Gains taken to Unitholders' Funds		-	-	-	14,272	-	14,272
Net income recognised directly in Unitholders' Funds		-	-	-	26,174	-	26,174
Increase in net assets resulting from operations		-	-	-	26,174	1,132,378	1,158,552

See accompanying notes to financial statements.

	Note	Issued equity HK\$'000	Unit issue costs HK\$'000	Revaluation reserve HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Net HK\$'000
UNITHOLDERS' TRANSACTIONS							
Creation of Units:							
Issuance of new units	17	1,986,100	-	-	-	-	1,986,100
Manager's base fees paid in Units	17	56,241	-	-	-	-	56,241
Distribution to Unitholders	27	-	-	-	-	(156,427)	(156,427)
Unit issue costs		-	(85,557)	-	-	-	(85,557)
Increase (Decrease) in net assets resulting from Unitholders' transactions		2,042,341	(85,557)	-	-	(156,427)	1,800,357
Net assets at 31 December 2005		4,287,901	(173,097)	-	14,272	2,086,073	6,215,149

	Note	Issued equity HK\$'000	Unit issue costs HK\$'000	Accumulated profits HK\$'000	Net HK\$'000
FORTUNE REIT					
Net assets at 1 January 2004		2,235,365	(89,101)	56,003	2,202,267

**OPERATIONS FOR YEAR ENDED
31 DECEMBER 2004**

Net profit		-	-	146,920	146,920
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UNITHOLDERS' TRANSACTIONS

Creation of Units:					
Manager's base fees paid in Units	17	10,195	-	-	10,195
Distribution to Unitholders	27	-	-	(139,601)	(139,601)
Adjustment to Unit issue costs		-	1,561	-	1,561
Increase (Decrease) in net assets resulting from Unitholders' transactions		10,195	1,561	(139,601)	(127,845)
Net assets at 31 December 2004		2,245,560	(87,540)	63,322	2,221,342

**OPERATIONS FOR YEAR ENDED
31 DECEMBER 2005**

Net profit for the year		-	-	191,158	191,158
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UNITHOLDERS' TRANSACTIONS

Creation of Units:					
Issuance of new units	17	1,986,100	-	-	1,986,100
Manager's base fees paid in Units	17	56,241	-	-	56,241
Distribution to Unitholders	27	-	-	(156,427)	(156,427)
Unit issue costs		-	(85,557)	-	(85,557)
Increase (Decrease) in net assets resulting from Unitholders' transactions		2,042,341	(85,557)	(156,427)	1,800,357
Net assets at 31 December 2005		4,287,901	(173,097)	98,053	4,212,857

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Group	
	2005 HK\$'000	2004 HK\$'000
Operating activities		
Profit before taxation	1,178,573	184,046
Adjustments for:		
Changes in fair value of properties	(799,295)	-
Manager's base fees	18,688	10,796
Negative goodwill	(141,169)	(3,154)
Depreciation	45	9
Borrowing costs	59,133	19,475
Operating profit before working capital changes	315,975	211,172
Decrease (Increase) in trade and other receivables	(5,437)	3,627
Increase (Decrease) in trade and other payables	62,993	(1,351)
Cash generated from operations	373,531	213,448
Income tax paid	(57,015)	(8,839)
Net cash from operating activities	316,516	204,609
Cash flows from investing activities:		
Acquisition of property companies, net of cash acquired (Note A)	(2,879,926)	-
Acquisition of investment properties	(498,000)	-
Upgrading of investment properties	(957)	(650)
Purchase of plant and equipment	(371)	(40)
Net cash used in investing activities	(3,379,254)	(690)
Cash flows from financing activities:		
Proceeds from issue of new units (net of issue costs)	1,934,933	-
Distribution paid	(156,427)	(139,601)
Drawdown (Repayment) of borrowings	1,452,888	(31,000)
Borrowing costs paid	(59,133)	(19,475)
Net cash (used in) from financing activities	3,172,261	(190,076)
Net increase in cash and bank balances	109,523	13,843
Cash and bank balances at beginning of the year	103,622	89,779
Cash and bank balances at end of year	213,145	103,622

Notes to the consolidated cash flow statement

A. Summary of the effects of acquisition of property companies:

	Group	
	2005 HK\$'000	2004 HK\$'000
Investment properties	(3,110,000)	-
Non-current liabilities	3,306	-
Net current liabilities	12,771	-
Group's share of net assets acquired	(3,093,923)	-
Negative goodwill arising	141,169	-
Payment for acquisition of property companies	(2,952,754)	-
Net cash acquired	72,828	-
Acquisition of property companies, net of cash acquired	(2,879,926)	-

The property companies were acquired by Fortune REIT on 28 June 2005. These property companies contributed the following to the Group from the acquisition date to 31 December 2005:

	2005 HK\$'000	2004 HK\$'000
Total revenue	146,161	-
Profit before taxation	608,734	-
Net profit	594,812	-

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 24 January 2006.

1 GENERAL

Fortune Real Estate Investment Trust (known as "Trust" or "Fortune REIT") is a Singapore-domiciled unit trust. The Trust Deed dated 4 July 2003 (as amended by the Amending and Restating Deed dated 29 June 2005) ("Trust Deed") is governed by the laws of the Republic of Singapore. On 4 July 2003, Fortune REIT was declared an authorised unit trust scheme under the Trustees Act, Chapter 337. The Manager and Trustee are ARA Asset Management (Singapore) Limited and HSBC Institutional Trust Services (Singapore) Limited respectively and their registered offices and principal places of business are at 9 Temasek Boulevard, #09-01 Suntec City Tower 2, Singapore 038989 and 21 Collyer Quay, #10-01 HSBC Building, Singapore 049320, respectively. The financial statements are expressed in Hong Kong dollars.

Fortune REIT was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 12 August 2003.

The principal activity of Fortune REIT is to own and invest in a portfolio of retail shopping malls located in Hong Kong through the subsidiaries ("property companies") or other companies whose primary purpose is to hold or own real estate properties, or directly in properties, with the primary objective of producing stable distributions for unitholders and to achieve long term growth in the net asset value per unit.

On 28 June 2005, Fortune REIT acquired an additional 6 retail shopping malls in Hong Kong, bringing its portfolio of retail shopping malls from 5 to 11.

Fortune REIT has entered into several service agreements in relation to the management of Fortune REIT and its property operations. The fee structures of these services are as follows:

(a) Property management fees

Property management fee

Under the Property Management Agreement, the Property Manager, Goodwell-Fortune Property Services Limited, which is a party related to a major Unitholder, will receive from each of the ten property companies a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

In respect of City One Shatin Property, Urban Property Management Limited, which is a party not related to a major Unitholder, will receive a fee of 3% per annum of gross property revenue for the provision of property management services. The lease management services and the marketing services are provided by the Property Manager.

Gross property revenue means the amount equivalent to the gross revenue less charge-out collections and car park revenues.

Marketing services

For the marketing services, the property companies will pay the Property Manager the following commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10.0% of the total licence fee for securing a licence for duration of less than 12 months.

(b) Trustee's fees

The Trustee's fees are 0.03% per annum (subject to a minimum of HK\$50,000 per month) on the value of the real estate properties and are accrued daily and paid monthly in arrears in accordance with the Trust Deed.

(c) Manager's fees

The Manager is entitled to receive the following remuneration for the provision of asset management services:

Base fee

Under the Trust Deed, the Manager will receive a base fee from Fortune REIT at 0.3% per annum on the value of the properties. The base fee (referable only to the initial portfolio of Fortune REIT on listing on SGX-ST) will be paid quarterly in arrears and in the form of units in the Trust during the first five years after the Units are listed on SGX-ST. Thereafter, the base fee will be paid in cash.

Performance fee

Under the Trust Deed, the Manager will receive a performance fee from each property company at 3% of the net property income of the property companies with certain adjustments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention, modified to include the revaluation of the properties and are drawn up in accordance with Singapore Financial Reporting Standards (FRSs); Interpretations of Financial Reporting Standards, and the applicable requirements of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore ("MAS") and the Trust Deed.

During the financial year, Fortune REIT and the Group adopted or early adopted the following new and revised FRSs issued by the Council on Corporate Disclosure and Governance:

- FRS 1 (Revised)	Presentation of Financial Statements
- FRS 8 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 10 (Revised)	Events after the Balance Sheet Date
- FRS 16 (Revised)	Property, Plant and Equipment
- FRS 17 (Revised)	Leases
- FRS 21 (Revised)	The Effects of Changes in Foreign Exchange Rates
- FRS 24 (Revised)	Related Party Disclosures
- FRS 27 (Revised)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- FRS 36 (Revised)	Impairment of Assets
- FRS 38 (Revised)	Intangible Assets
- FRS 39	Financial Instruments: Recognition and Measurement
- FRS 40	Investment Property
- FRS 102	Share Based Payments
- FRS 103	Business Combinations

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The adoption of the above new and revised FRSs does not have any significant impact on Fortune REIT or the Group, except as follows:

FRS 39 – Financial instruments: Recognition and Measurement

Under FRS 39, financial assets and liabilities, including derivative financial instruments, are classified and measured in accordance with the requirements under this FRS. The change in accounting policy has been accounted for prospectively in accordance with the transitional provisions.

Fortune REIT has adopted hedge accounting for its outstanding interest rate swaps. Hedge accounting allows the effective portion of the fair value changes of cash flow hedge to be taken to unitholders' funds. Fair value changes relating to the ineffective portion of the interest rate swaps is taken to the statement of return.

As a result of the implementation of FRS 39 on 1 January 2005, the Unitholders funds have been reduced by the effective portion of the unrealised loss arising from revaluation of the hedging instrument of HK\$11.9 million. The non-effective portion was not material as at 1 January 2005, hence the opening balance of accumulated profits as at 1 January 2005 was not adjusted.

FRS 40 - Investment Property

The Group has opted for early adoption of FRS 40 during the year.

FRS 40 will be effective for annual periods beginning 1 January 2007 but Fortune REIT has early adopted FRS 40 for the current financial year. The Group adopts the fair value model. Previously the Group adopted the revaluation model. Under the revaluation model, increases in carrying amounts were recognised 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.

Under FRS 40, fair value changes on investment properties are taken to the statement of return. As a result of the implementation of FRS 40, the revaluation surplus arising from the revaluation of the investment properties as at 1 January 2005 of HK\$908,200,000 has been taken direct to accumulated profits as at 1 January 2005.

FRS 102 – Share-based Payment

Under FRS 102, Fortune REIT is required to account for the manager's base fee and Acquisition Fee, which is payable in units as equity instead of in current liabilities.

FRS 103 – Business Combination

FRS 103 requires, among others, negative goodwill to be recognised as income in the financial year the negative goodwill arises.

For Fortune REIT, upon the implementation of FRS 103, the outstanding negative goodwill arising from the acquisition of the Property Companies as at 31 December 2004 of HK\$134.4 million had been taken to accumulated profits as at 1 January 2005 and the accounting profit of Fortune REIT for the financial year ended 31 December 2005 has been reduced by approximately HK\$3.2 million arising from non-amortisation of this negative goodwill. During the financial year, the negative goodwill of HK\$141.2 million arising from the acquisitions of the new property companies has been recognised as income in accordance with FRS 103.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impact of change in accounting policy

Cumulatively, the adoption of FRS 39, FRS 102, FRS 103 and FRS 40, resulted in the following adjustments to the opening balances of unitholders' funds as at 1 January 2005:

	Group HK\$'000
Opening Balance at 1 January 2005 (as previously reported)	
- Unitholders' funds	3,133,732
Impact of change in accounting policy	
- FRS 39 - Hedge effectiveness	(11,902)
- FRS 103 - Negative goodwill	134,410
Opening Balance at 1 January 2005 (restated)	
- Unitholders' funds	<u>3,256,240</u>

FRS and Interpretations ("INTs") were in issue but not yet effective

At the date of authorisation of these financial statements, the following FRS other than FRS 40 and Interpretations ("INTs") were in issue but not yet effective as highlighted above:

- FRS 106 : Exploration for and Evaluation of Mineral Resources
- FRS 107 : Financial Instruments: Disclosures
- INT FRS 104 : Determining whether an Arrangement contains a Lease
- INT FRS 105 : Rights to interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds
- INT FRS 106 : Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Amendments to FRS 1 Presentation of Financial Statements on Capital Disclosures.

Amendments to FRS 39 Financial Instruments: Recognition and Measurement on hedge accounting provisions, fair value option and financial guarantee contracts.

Amendments to FRS 101 First-time Adoption of Financial Reporting Standards on comparative disclosures for FRS 106 Exploration for and Evaluation of Mineral Resources.

Amendments to FRS 104 Insurance Contracts on financial guarantee contracts.

Consequential amendments were also made to various standards as a result of these new/revised standards.

The directors anticipate that the adoption of the above FRS, INTs and the amendments to FRS that were issued but not yet effective until future periods will not have any material impact on the financial statements of Fortune REIT and the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Fortune REIT and the property companies controlled by Fortune REIT made up to 31 December each year. Control is achieved when Fortune REIT has the power to govern the financial and operating policies of the property companies so as to obtain benefits from their activities. On acquisition, the assets and liabilities of the relevant property companies are measured at their fair values at the date of acquisition. The results of property companies acquired or disposed of during the year are included in the consolidated statement of return from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

In Fortune REIT's financial statements, investments in the property companies are carried at cost less any impairment in net recoverable value.

(c) Financial assets

Financial assets include cash and bank balances, trade and other receivables. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(d) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities include trade payables, other payables and borrowings. Trade and other payables are stated at their nominal value. Borrowings are recorded at the proceeds received, net of transaction costs. Finance costs are accounted for on an accrual basis (effective yield method) and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Equity instruments are recorded at the fair value of the consideration received, net of direct issue costs. Distributions to Unitholders are recognised in Unitholders' Fund in the period in which they are declared.

(e) Unit issue costs

Costs incurred in relation to the initial public offering and equity fund raising and subsequent issues of new units in Fortune REIT on a stock exchange are charged against the Unitholders' Fund.

(f) Plant and equipment

Plant and equipment are carried at cost, less accumulated depreciation and any impairment losses.

Depreciation is provided on gross carrying amounts in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follows:

Office equipment, furniture and fittings - 20% to 33.3%

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of return.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Investment properties

Investment properties are held for investment potential and income. Investment properties are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Following the Group's decision to early adopt FRS40 during the current financial year, the surplus or deficit on revaluation (net of deferred tax where applicable) is taken to the statement of return. The asset revaluation reserve from the revaluation of investment properties of HK\$908.2 million as at 1 January 2005 was taken to accumulated profits.

(h) Impairment of assets

At each balance sheet date, Fortune REIT and the Group review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is suffered and the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the statement of return as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the statement of return as income immediately.

(i) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a property company at the date of acquisition over the cost of acquisition.

After reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognised immediately in statement of return as an income.

Previously, the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of FRS 103, the Group has applied the revised accounting policy prospectively from 1 January 2005. The change has had no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill at 1 January 2005 had been derecognised at the transition date. An adjustment of HK\$134.4 million is made to opening accumulated profits and negative goodwill at 1 January 2005. Under the previous accounting policy, HK\$3.2 million of negative goodwill would have been released to the statement of return during 2005, leaving a balance of negative goodwill of HK\$131.2 million at 31 December 2005. The impact of the change in accounting policy in 2005 is a reduction in other operating income of HK\$3.2 million and an increase in net assets at 31 December 2005 of HK\$131.2 million.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Provisions

Provisions are recognised when Fortune REIT and the Group have a present obligation as a result of a past event where it is probable that such obligation will result in an outflow of economic benefits that can be reasonably estimated.

(k) Share based payments

Base fee payable to the Manager in the form of units in the REIT is recorded in unitholders' funds when the units become payable. The corresponding debt balance is taken to the statement of return as an expense.

(l) Revenue recognition

Rental income is recognised, on a straight-line basis, over the terms of the respective leases. Lease incentives granted are recognised as an integral part of the total rental to be received. Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on a receipt basis. No contingent rentals are recognised if there are uncertainties due to the possible return of amounts received.

Charge-out collections, representing mainly air conditioning expenses, management expenses, promotion expenses, government rates and government rents payable by the tenants and licensees are recognised when the services and facilities are provided.

Interest revenue is recognised on a time proportion basis using the effective interest basis on the principal amount outstanding.

Dividend revenue from the property companies is recognised when the right to receive dividend is legally established.

(m) Borrowing costs

Borrowing costs are recognised as an expense in the statement of return in the period in which they are incurred.

(n) Foreign currency transactions

The functional currency of Fortune REIT and the presentation currency of the Group is the Hong Kong dollar as it reflects the economic substance of the underlying events and circumstances of the Trust. Transactions in foreign currencies are recorded in Hong Kong dollars at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances carried at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet date. All realised and unrealised exchange adjustment gains and losses are dealt with in the statement of return.

(o) Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates.

The Group uses derivative financial instruments (primarily interest rate swaps) to hedge its risks associated with interest rates fluctuations relating to its loans liabilities. The Group's policy is to convert a proportion of its floating rate debt to fixed rates. The Group designates these as cash flow hedges of interest rate risk.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flows hedges of future cash flows are recognised directly in equity in unitholders' funds and the ineffective portion is recognised immediately in statement of return. The Group's policy with respect to the hedging of the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a liability, then, at the time the non-financial asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or liability. For hedges that do not result in the recognition of an asset or a liability, the amounts deferred in equity are recognised in statement of return in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in statement of return as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecasted transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to statement of return for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in statement of return.

(p) Taxation

Taxation on the profits for the period comprises current and deferred tax. Income tax is recognised in the statement of return except to the extent that it relates to items directly related to Unitholders' funds, in which case it is recognised in Unitholders' funds.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax on temporary differences on initial recognition of assets or liabilities that affect neither accounting nor taxable profit is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Ministry of Finance of Singapore ("MOF") has issued a tax ruling on the taxation of Fortune REIT for income earned and expenditure incurred after its initial public offering. Subject to meeting the terms and conditions of tax ruling, the Singapore taxation of Fortune REIT are described below:

(i) Tax-Exempt Income

Fortune REIT will be exempt from Singapore income tax on the dividends received from the property companies that are distributed out of income (including interest income and gains from the sale of real properties) which have been subject to Hong Kong profits tax at a rate of not less than 15%.

(ii) Taxable Income

Fortune REIT will be subject to Singapore income tax on dividends received from the property companies that are paid out of income or gains which are not subject to Hong Kong profits tax, and on all income derived from or accrued in Singapore, or received in Singapore from outside Singapore.

(iii) Non-Taxable Capital Gain

Fortune REIT is not assessable to Singapore Income Tax on the gains from the disposal of investments in the property companies that have been confirmed by MOF to be capital gains.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 2 above, the manager is of the opinion that there are no instances of application of judgements or the use of estimation techniques which may have a significant effect on the amounts recognised in the financial statements other than for the valuation of the investment properties.

As described in note 2(g), investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation report, the manager has exercised judgement and is satisfied that the method of valuation is reflective of the current market conditions.

4 FINANCIAL RISKS AND MANAGEMENT

Exposure to credit, interest rate, liquidity and foreign currency risks arise in the normal course of the Group's business. The Group has guidelines, which set out its overall business strategies and its general risk management philosophy.

4 FINANCIAL RISKS AND MANAGEMENT (cont'd)

Credit risk

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the property companies, as and when they fall due.

The Manager has established credit limits for tenants and monitors their balances on an ongoing basis. Credit evaluations are performed by the Property Manager on behalf of the Manager before lease agreements are entered into with tenants. Cash and fixed deposits are placed with reputable financial institutions.

At 31 December 2005, there was no significant concentration of credit risk except that of related parties receivables which comprise mainly rental compensation under guarantee. The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Where necessary, the Group adopts an appropriate hedging policy to minimise interest rate exposure. This may involve fixing certain portion of the interest payable on its underlying debt liabilities via financial derivatives or other suitable financial products.

Liquidity risk

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations. In addition, the Manager also monitors and observes the Code on Collective Investment Schemes issued by the MAS concerning limits on total borrowings.

Foreign currency risk

The Group is primarily exposed to foreign currency risk arising from its Singapore dollars bank balances and deposits. The foreign currency risk is managed by the Manager on an ongoing basis.

Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities reported in the balance sheet approximate their respective fair values because the long-term borrowings are floating rate loans and the rest of the financial instruments have relatively short term maturity.

NOTES TO THE FINANCIAL STATEMENTS

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5 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Many of the Group's transactions and arrangements are with related parties and the effects of these on the bases determined between the parties are reflected in these financial statements. The balances are unsecured and free from interest.

Significant related party transactions, other than those disclosed elsewhere in the notes to the financial statements.

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Base rental	(78,388)	(45,784)	-	-
Charge-out collections	(24,702)	(19,987)	-	-
Rental compensation under Guarantee	(13,313)	(49,175)	-	-
Building management expenses	49,131	10,667	-	-
Management fee and other charges	31,704	46,694	-	-
Carpark agency fee	2,012	2,038	-	-

Pursuant to the Rental Guarantee Deed entered into between Cheung Kong (Holdings) Limited ("the Sponsor"), Hutchison Whampoa Limited ("Strategic Investor") and Vision Million Limited, the property company which owns Metropolis Mall, the Sponsor and the Strategic Investor had undertaken for the three years starting from 12 August 2003, to effect top up payment to Vision Million Limited if:

- i) the net property income, subject to certain adjustments, is less than HK\$90 million per annum, to make up the difference between HK\$90 million and the adjusted net property income for the relevant period; and
- ii) the net parking space income is less than HK\$4,296,000 per annum, to make up the difference between HK\$4,296,000 per annum and the net parking space income for the relevant period.

6 CASH AND BANK BALANCES

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and in hand	68,347	33,672	31,687	2,133
Fixed deposits with financial institutions	144,798	69,950	92,721	56,042
Total	213,145	103,622	124,408	58,175

6 CASH AND BANK BALANCES (cont'd)

Effective interest rate and repricing analysis:

	Effective interest rate		Total		Within 1 month	
	2005 %	2004 %	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Group						
Fixed deposits with financial institutions	4.2449	0.4545	144,798	69,950	144,798	69,950
Fortune REIT						
Fixed deposits with financial institutions	4.2449	0.4545	92,721	56,042	92,721	56,042

The above fixed deposits are normally placed for a period from 7 days to 17 days (2004: 7 days to 14 days).

7 TRADE AND OTHER RECEIVABLES

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
a) <u>Trade receivables</u>				
Outside parties	9,890	7,882	-	-
Less allowances for doubtful trade receivables	(7,274)	(7,258)	-	-
Net	2,616	624	-	-
Property companies (dividend receivable)	-	-	138,405	78,509
Related parties:				
- Rental compensation under Guarantee (Note 5)	6,840	21,248	-	-
- Others	-	19	-	-
Total trade receivables	9,456	21,891	138,405	78,509

During the financial year, HK\$25,000 (2004: HK\$64,000) of doubtful debts were written off against allowances.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

7 TRADE AND OTHER RECEIVABLES (cont'd)

b) Other receivables and prepayments

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Security deposits	13,450	11,497	-	-
Other receivables	23,028	40	-	-
Prepayments	2,100	478	18,122	6
Total other receivables and prepayments	38,578	12,015	18,122	6
Total trade and other receivables	48,034	33,906	156,527	78,515

8 INVESTMENT PROPERTIES

	Group	
	2005 HK\$'000	2004 HK\$'000
At beginning of year	4,184,000	3,389,000
During the year:		
Acquisition of property companies	3,110,000	-
Acquisition of properties	498,000	-
Capital expenditure incurred	705	650
Fair value changes	799,295	794,350
Reclassified as held for resale	(73,000)	-
At end of year	8,519,000	4,184,000

8 INVESTMENT PROPERTIES (cont'd)

Details of the investment properties as at the balance sheet date are set out below:

<u>Description of property</u>	<u>Tenure of land</u>	<u>Term of lease</u>	<u>Remaining term of lease</u>	<u>Location</u>	<u>Valuation</u>	
					2005 HK\$'000	2004 HK\$'000
The Metropolis Mall	Leasehold	50.5 years	41.5 years	Nos. 6 -10 Metropolis Drive, The Metropolis Mall, Kowloon, Hong Kong	1,959,000	1,959,000
Ma On Shan Plaza	Leasehold	55.5 years	41.5 years	No. 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong	1,475,000	1,282,000
Smartland	Leasehold	149 years	41.5 years	No. 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong	396,000	346,000
The Household Center	Leasehold	50 years	42.5 years	No. 8 King Lai Path, Kwai Chung, New Territories, Hong Kong	315,000	302,000
Jubilee Court Shopping Centre	Leasehold	149 years	41.5 years	Nos. 2 - 18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong	310,000	295,000
City One Shatin ⁽¹⁾	Leasehold	99 years	41.5 years	1 & 2 Ngan Shing Street, 6 Lok Shing Street, Shatin, New Territories, Hong Kong	3,050,000	-
Waldorf Garden ⁽¹⁾	Leasehold	99 years	41.5 years	No 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong	480,000	-

NOTES TO THE FINANCIAL STATEMENTS

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8 INVESTMENT PROPERTIES (cont'd)

<u>Description of property</u>	<u>Tenure of land</u>	<u>Term of lease</u>	<u>Remaining term of lease</u>	<u>Location</u>	<u>Valuation</u>	
					2005 HK\$'000	2004 HK\$'000
Tsing Yi Square ⁽¹⁾	Leasehold	99 years	41.5 years	No 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong	290,000	-
Centre de Laguna ⁽¹⁾	Leasehold	58 years	41.5 years	95/99 Cha Kwo Ling Road Kwun Tong, Kowloon, Hong Kong	168,000	-
Lido Garden ⁽¹⁾	Leasehold	149 years	41.5 years	No 41-63 Castle Peak Road, Sham Tseng Tsuen Wan New Territories, Hong Kong	95,000	-
Rhine Garden ⁽¹⁾	Leasehold	57 years	41.5 years	No 38 Castle Peak Road, Sham Tseng Tsuen Wan New Territories, Hong Kong	54,000	-
Total					8,592,000	4,184,000
Classified as:						
Held for resale					73,000	-
Investment properties					8,519,000	4,184,000
Total					8,592,000	4,184,000

(1) On 28 June 2005, Fortune REIT acquired these properties and property companies through Fortune Port Limited, a company which is related to the Manager, ARA Asset Management (Singapore) Limited.

On 31 December 2005, an independent valuation was undertaken by Savills Valuation and Professional Services Limited. The firm is an independent valuer having appropriate professional qualifications and recent experience in the location and category of the properties being valued. The valuations for the eleven properties were based on a combination of the Investment Method, Direct Comparison Method and Discounted Cash Flow Analysis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The valuations adopted amounted to HK\$8,592,000,000 (2004: HK\$4,184,000,000).

8 INVESTMENT PROPERTIES (cont'd)

The Group early adopted FRS 40 during the financial year. 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 accumulated profits and an amount HK\$799.3 million property fair value changes to the investment properties during the year has been reflected in the Group's statement of return.

As at 31 December 2005, an amount of HK\$73.0 million had been reclassified from the investment properties to current assets as "Investment properties held for resale" as the Group had on 30 September 2005 entered into agreements to dispose of certain investment properties subsequent to the balance sheet date.

The investment properties located in Hong Kong comprise a portfolio of retail shopping mall properties with a diverse tenant base. Most of the leases contain tenancy periods ranging from two to three years. Subsequent renewals are negotiated with the lessees at prevailing market rates.

The investment properties (except Waldorf Garden Property and Jubilee Court Shopping Centre) have been mortgaged as security for credit facilities granted by HongKong Shanghai Banking Corporation Limited and DBS Bank Ltd.

9 DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2005		2004	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	14,272	-	-	(11,902)

At the balance sheet date, the total notional principal amounts to which the Group is committed are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest rate swaps	1,843,500	470,000

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates. Contracts with nominal values of HK\$1,843.5 million have fixed interest payments at rates ranging from 3.685% to 3.93% (2004: 3.14% to 3.38%) per annum for periods up until 2008 and have floating interest receipts at Hong Kong Interbank Offer Rate plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year.

The fair value of swaps entered into at 31 December 2005 is estimated at HK\$14,272,000 [2004: (HK\$11,902,000)]. These amounts are based on quoted market prices for equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

10 LOANS TO PROPERTY COMPANIES

The loans to property companies in 2004 were given to enable the property companies to finance their operations. They were unsecured and did not bear interest.

During the financial year, the loans were converted into investment in redeemable preference shares in the property companies.

11 INVESTMENTS IN PROPERTY COMPANIES

	Fortune REIT	
	2005 HK\$'000	2004 HK\$'000
Unquoted, ordinary shares, at cost	2,446,240	531,486
Unquoted, preference shares, at cost	1,492,984	-
Total	3,939,224	531,486

Subsidiaries of Fortune REIT:

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT		Cost of investment by Fortune REIT		Principal activities in Hong Kong
		2005	2004	2005	2004	
		%	%	HK\$'000	HK\$'000	
Mightypattern Limited ⁽¹⁾	Hong Kong	100	-	1,519,004	-	Property investment in City One Shatin
Vision Million Limited	British Virgin Islands	100	100	938,809	128,809	Property investment in The Metropolis Mall
Poko Shine Limited	Hong Kong	100	100	487,258	151,258	Property investment in Ma On Shan Plaza
Waldorf Realty Limited ⁽¹⁾	Hong Kong	100	-	395,749	-	Property investment in Waldorf Garden
Yee Pang Realty Limited	Hong Kong	100	100	152,832	144,831	Property investment in Jubilee Court Shopping Centre
Art Full Resources Limited	Hong Kong	100	100	130,431	70,431	Property investment in The Household Center
Quick Switch Limited	British Virgin Islands	100	100	115,157	36,157	Property investment in Smartland

11 INVESTMENTS IN PROPERTY COMPANIES (cont'd)

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT		Cost of investment by Fortune REIT		Principal activities in Hong Kong
		2005	2004	2005	2004	
		%	%	HK\$'000	HK\$'000	
Team Challenge Limited ⁽²⁾	British Virgin Islands	100	-	95,620	-	Property investment in Tsing Yi Square
Ace Courage Limited ⁽³⁾	British Virgin Islands	100	-	56,059	-	Property investment in Centre de Laguna
Partner Now Limited ⁽²⁾	British Virgin Islands	100	-	30,810	-	Property investment in Lido Garden
Proven Effort Limited ⁽²⁾	British Virgin Islands	100	-	17,495	-	Property investment in Rhine Garden
Subsidiaries of Mightypattern Limited ⁽⁴⁾ :						
Maxon Investment Limited ⁽¹⁾	Hong Kong	100	-	-	-	Financing
Pinelink Investment Limited ⁽¹⁾⁽⁵⁾	British Virgin Islands	100	-	-	-	Investment holding
Million Nice Development Limited ⁽¹⁾	Hong Kong	100	-	-	-	Property investment
Subsidiaries of Waldorf Realty Limited:						
Prostar Resources Limited ⁽¹⁾⁽⁵⁾	British Virgin Islands	100	-	-	-	Investment holding
Colour Sky International Limited ⁽¹⁾	Hong Kong	100	-	-	-	Property investment
Total				3,939,224	531,486	

Notes:-

(1) Acquired on 28 June 2005.

(2) Incorporated on 3 May 2005.

(3) Incorporated on 26 April 2005.

(4) The interests in subsidiaries with a carrying value of HK\$8 were pledged as security to the bank for loan facility provided to subsidiaries of Mightypattern Limited

(5) No audit required under country of incorporation.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

11 INVESTMENTS IN PROPERTY COMPANIES (cont'd)

Fortune REIT holds 100% of the ordinary shares and redeemable preference shares in all the subsidiaries.

The redeemable preference shares are redeemable at the option of the subsidiaries and they have the following terms:

- (a) They do not carry any right to dividend;
- (b) They are not participating (i.e. there is no right to participate in the surplus profits of the company after payment of dividend to the holders of the ordinary shares);
- (c) They shall not have any voting rights at general meetings of the company;
- (d) In the event of a winding up of the subsidiary, the holders of the redeemable preference shares shall have priority over the holders of the ordinary shares as to repayment of capital and premium paid on the issue of such redeemable preference shares, but that the holders of the redeemable preference shares shall not be entitled to participate in the surplus assets (if any) of the company; and
- (e) Each redeemable preference share shall be redeemable at any time at the option of the subsidiary at a redemption price equal to the issue price thereof.

All the property companies are audited by Deloitte Touche Tohmatsu, Hong Kong.

12 PLANT AND EQUIPMENT

	<u>Office equipment, furniture and fittings</u>	
	2005 HK\$'000	2004 HK\$'000
Cost:		
At beginning of year	40	-
Additions	371	40
At end of year	411	40
Accumulated depreciation:		
At beginning of year	9	-
Depreciation for the year	45	9
At end of year	54	9
Depreciation	9	-
Carrying value:		
At end of year	357	31
At beginning of year	31	-

13 NEGATIVE GOODWILL

	Group	
	2005 HK\$'000	2004 HK\$'000
Gross amount:		
At beginning of year	(138,782)	(138,782)
Adjusted against opening accumulated profits	138,782	-
At end of year	-	(138,782)
Accumulated amortisation:		
At beginning of year	4,372	1,218
Amortisation during the year	-	3,154
Adjusted against opening accumulated profits	(4,372)	-
At end of year	-	4,372
Net carrying value:		
At end of year	-	(134,410)

14 TRADE AND OTHER PAYABLES

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
a) Trade payables				
Sales deposits	22,931	-	-	-
Tenant's deposits				
- Outside parties	119,376	44,425	-	-
- Related parties (Note 5)	728	192	-	-
Rental received in advance				
- Outside parties	6,276	1,908	-	-
Total trade payables	149,311	46,525	-	-
b) Other payables				
Trustee's fee	682	378	682	378
Manager's base fee	325	3,322	325	3,322
Unit issue costs	5,123	410	5,123	410
Operating expenses	33,798	15,660	969	504
Total other payables	39,928	19,770	7,099	4,614
Total trade and other payables	189,239	66,295	7,099	4,614

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

15 BORROWINGS

	Group and Fortune REIT	
	2005	2004
	HK\$'000	HK\$'000
Short-term borrowing:		
Revolving loan	12,000	26,000
Long-term borrowings:		
Term loans	2,366,888	900,000
Total	2,378,888	926,000

Under the facility agreement between HongKong Shanghai Banking Corporation Limited ("HSBC") and DBS Bank Ltd ("DBS") and the property companies, the banks have granted the property companies an Omnibus Facility of HK\$2,650 million (2004: HK\$1,100 million) comprising a HK\$2,385 million (2004: HK\$900 million) term loan facility and a HK\$265 million (2004: HK\$200 million) revolving credit facility, each for a term of five years from 28 June 2005.

Each loan made under the Facilities bears interest at the Hong Kong Interbank Offer Rate ("HIBOR") plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year.

Included in the loan obligation is a front end fee of HK\$20.1 million paid to the banks to secure loan facilities. The front end fee is amortised over a period of 5 years. The movement in the front end fee and the accumulated amortisation is as follows:-

	Group and Fortune REIT	
	2005	2004
	HK\$'000	HK\$'000
Cost	20,125	-
Movement in accumulated amortisation:		
- Amortised during the year	(2,013)	-
Balance at end of year	2,013	-
Net book value	18,112	-

The loan facilities are secured (2004: unsecured) by, inter alia, a mortgage over the existing and the newly acquired properties (except for Jubilee Court Shopping Centre and Waldorf Garden Property).

The total facilities drawn down by the property companies as at 31 December 2005 were HK\$2,397 million (2004: HK\$926 million) (before deduction of unamortised front end fee), consisting of:

15 BORROWINGS (cont'd)

- i) HK\$2,385 million (2004: HK\$900 million) term loan bearing interest at floating interest rate ranging from 3.606% to 4.400% (2004: 0.725% to 1.35%) per annum, fully repayable in August 2008. Under the facility agreement, the property companies have the option to prepay the loan at the end of each interest period, by giving not less than 21 days' prior written notice to the bank.

The Group has entered into interest rate swap contracts to swap the floating rate borrowings into fixed rate borrowings. As at 31 December 2005, the fixed interest rates of borrowings vary from 3.685% to 3.93% (2004: 3.14% to 3.38%) per annum.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts as at 31 December 2005 are disclosed in Note 9.

- ii) HK\$12 million (2004: HK\$26 million) revolving loan bearing interest at floating interest rate ranging from 3.593% to 4.337% (2004: 0.6625% to 1.5375%) per annum. The final maturity is in August 2008.

The effective interest rates and repricing analysis:

	Effective interest rate		Carrying value		Repricing within 3 months	
	2005	2004	2005	2004	2005	2004
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Interest bearing borrowings - Group</u>						
Term loans (with swap cost)	3.27	2.0734	2,385,000	900,000	2,385,000	900,000
Revolving loan	3.2772	0.9539	12,000	26,000	12,000	26,000
Total			2,397,000	926,000	2,397,000	926,000

16 DEFERRED TAX LIABILITIES

	Group		Fortune REIT	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax liabilities	78,707	55,556	-	-

The movement in deferred tax position during the year was as follows:

At beginning of year	55,556	34,498	-	-
Charge to statement of return for the year (Note 24)	19,845	21,058	-	-
On acquisition of property companies	3,306	-	-	-
At end of year	78,707	55,556	-	-

The followings are the major deferred tax liabilities and assets recognised by Fortune REIT and the Group and movements thereon during the year:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

16 DEFERRED TAX LIABILITIES (cont'd)

Deferred tax liabilities/(assets)

	<u>Accelerated tax depreciation</u>		<u>Tax losses</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group						
At beginning of year	74,616	64,135	(19,060)	(29,637)	55,556	34,498
On acquisition of property companies	3,306	-	-	-	3,306	-
Charge to statement of return for the year	11,784	10,481	8,061	10,577	19,845	21,058
At end of year	89,706	74,616	(10,999)	(19,060)	78,707	55,556

17 ISSUED EQUITY

	<u>Group and Fortune REIT</u>			
	2005	2004	2005	2004
	<u>Number of units</u>		<u>HK\$'000</u>	<u>HK\$'000</u>
	<u>'000</u>			
Balance at beginning of year	475,169	473,285	2,245,560	2,235,365
Issue of new units during the year:				
On 28 June 2005	318,796	-	1,986,100	-
As payment of manager's base fee	7,957	1,884	56,241	10,195
Balance at end of year	801,922	475,169	4,287,901	2,245,560

On 28 June 2005, the Trust issued 318,796,000 units at an issue price of HK\$6.23 per unit for cash to partly finance the purchase of 6 new properties.

Included in the payment of manager's base fees are 5,520,064 units which relate to the acquisition fee component issued to the manager as payment of base fees for the acquisition of 6 new properties.

On 16 January 2006, Fortune REIT issued 1,124,236 units to the Manager at HK\$5.779 per unit as base fee for the period from 1 October 2005 to 31 December 2005.

Each unit in Fortune REIT represents an undivided interest in Fortune REIT. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

17 ISSUED EQUITY (cont'd)

- Receive income and other distributions attributable to the Units held;
- Receive audited accounts and the annual reports of Fortune REIT; and
- Participate in the termination of Fortune REIT by receiving a share of all net cash proceeds derived from the realisation of the assets of Fortune REIT less any liabilities, in accordance with their proportionate interests in Fortune REIT. However, an unitholder has no right to require that any asset of Fortune REIT be transferred to him.

Further, Unitholders cannot give any directions to the Trustee or the Manager (whether at a meeting of Unitholders or otherwise) if it would require the Trustee or the Manager to do or omit doing anything which may result in:

- Fortune REIT ceasing to comply with applicable laws and regulations; or
- The exercise of any discretion expressly conferred on the Trustee or the Manager by the Trust Deed or the determination of any matter which, under the Trust Deed, requires the agreement of either or both of the Trustee and the Manager.

A Unitholder's liability is limited to the amount paid or payable for any Units in Fortune REIT. The provisions of the Trust Deed provide that no Unitholder will be personally liable to indemnify the Trustee or any creditor of the Trustee in the event that liabilities of Fortune REIT exceed its assets.

18 UNIT ISSUE COSTS

Expenses incurred in issuing new units totalling HK\$173.1 million (2004: HK\$89.1 million) had been charged against the Unitholders' funds. Included in the unit issue costs were amounts paid to the auditors of Fortune REIT of HK\$2.4 million (2004: HK\$1.27 million) for acting as independent reporting accountants for the second equity offering (2004: Initial Public Offering) of Fortune REIT and provision of other services relating to the second equity offering (2004: Initial Public Offering).

19 ADJUSTED NET ASSET VALUE PER UNIT

The adjusted net asset value per unit is calculated based on the total net assets of the Group excluding hedging reserve and negative goodwill. The total number of units used for computing the adjusted net asset value per unit is 803,045,878 (2004: 475,670,775). This comprises:

- i) the number of units in issue as at 31 December 2005 of 801,921,642 (2004 : 475,168,809); and
- ii) the units payable to Manager on 16 January 2006 as base fee for the period from 1 October 2005 to 31 December 2005 of 1,124,236 (2004: 501,966).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

20 REVENUE

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Net dividend income	-	-	217,330	160,278
Base rental	300,861	160,245	-	-
Charge-out collections	98,638	70,117	-	-
Rental guaranteed for net property income	11,993	48,104	-	-
Rental guaranteed for net parking space income	1,320	1,071	-	-
Short-term rental	40,093	28,672	-	-
Total	452,905	308,209	217,330	160,278

The rental revenue included HK\$ 653,038 (2004: HK\$ 882,363) of contingent rents.

21 PROPERTY OPERATING EXPENSES

	Group	
	2005	2004
Number of employees at end of year	Nil	Nil

	Group	
	2005 HK\$'000	2004 HK\$'000
Utilities	24,257	13,492
Government rents and rates	14,570	8,804
Contribution to Estate Common	13,703	9,352
Reimbursement of staff costs	13,001	10,561
Service contracts and maintenance	12,411	10,240
Manager's performance fee	9,998	6,610
Property management fee	9,866	5,203
Car park expenses	7,139	5,004
Advertising and promotion	5,413	4,857
Audit fees paid to auditors of property companies	372	267
Allowance for doubtful debts	37	7,206
Other operating expenses	18,908	12,899
Total	129,675	94,495

22 NET TRUST EXPENSES

	Group and Fortune REIT	
	2005	2004
	HK\$'000	HK\$'000
Interest income	(1,266)	(134)
Audit fees paid to auditor of Fortune REIT	312	245
Professional fees	135	105
Trustee's fee	1,869	1,040
Other charges	6,010	2,125
Total	7,060	3,381

23 BORROWING COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest expense on		
- Term loans	54,063	18,661
- Revolving loan	4,596	444
Commitment fee	474	370
Total	59,133	19,475

24 INCOME TAX EXPENSE

	Group		Fortune REIT	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current - Singapore	184	11	184	11
- Foreign	26,166	12,894	-	-
	26,350	12,905	184	11
Deferred (Note 16)	19,845	21,058	-	-
Total	46,195	33,963	184	11

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% (2004: 20%) to profit before income tax as a result of the following differences:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

24 INCOME TAX EXPENSE (cont'd)

	Group		Fortune REIT	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Income tax expense at statutory rate	235,715	36,809	38,268	29,386
Non-allowable items	5,224	1,770	5,197	1,761
Non taxable income	(188,093)	-	-	-
Tax exempt income	-	-	(43,232)	(31,752)
Effect of different tax rates of overseas operations	(6,602)	(4,601)	-	-
Other items	(49)	(15)	(49)	-
Net income tax expense	46,195	33,963	184	11

25 INCOME AVAILABLE FOR DISTRIBUTION

Income available for distribution during the financial year is derived from net profit of the Group after adjustment for appropriate trust expenses.

26 EARNINGS PER UNIT

	2005 HK\$'000	2004 HK\$'000
Net profit for		
- 1 January 2005 to 27 June 2005 (1 January 2004 to 30 June 2004)	70,976	76,147
- 28 June 2005 to 30 June 2005	144,713	-
	215,689	76,147
- 1 July 2005 to 31 December 2005 (1 July 2004 to 31 December 2004)	916,689	73,936
Net profit for full year	1,132,378	150,083

26 EARNINGS PER UNIT (cont'd)

(i) Weighted average earnings per unit

The calculation of weighted average basic earnings per unit is calculated by dividing the net profit and the weighted average number of units during the year.

	2005	2004
	Number of units '000	
Weighted average number of units in issue during the year	642,879	474,816
	HK cents	
Weighted average earnings per unit	176.14	31.61

The weighted average number of units in issue during the year is after taking into account the 1,124,236 (2004: 501,966) units issued to the Manager on 16 January 2006 (12 January 2005) as base fee for the period from 1 October 2005 to 31 December 2005 (1 October 2004 to 31 December 2004).

(ii) Adjusted notional basic earnings per unit

The calculation of adjusted notional basic earnings per unit is calculated by dividing the net profit excluding gain on revaluation of properties and the total number of units issued during the first and second half of the year respectively [including the base fee issued to the manager in unit for the period 1 October 2005 and 31 December 2005 (1 October 2004 and 31 December 2004)].

	2005	2004
	Number of units '000	
Total number of units in issue during the period from:		
- 1 January 2005 to 27 June 2005 (1 January 2004 to 30 June 2004)	476,131	474,757
- 28 June 2005 to 30 June 2005	795,424	-
- 1 July 2005 to 31 December 2005 (1 July 2004 to 31 December 2004)	803,046	475,671
	HK cents	
Adjusted notional earnings per unit for period from:		
- 1 January 2005 to 27 June 2005 (1 January 2004 to 30 June 2004)	14.91	16.04
- 28 June 2005 to 30 June 2005	18.19	-
- 1 July 2005 to 31 December 2005 (1 July 2004 to 31 December 2004)	14.63	15.54
Total	47.73	31.58

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

26 EARNINGS PER UNIT (cont'd)

On 28 June 2005, Fortune REIT completed the equity fund raising for the acquisition of 6 additional properties. The distribution of Fortune REIT's tax-exempt income is for the period from 1 January 2005 to 27 June 2005, the day immediately prior to the date on which the new units were issued. Fortune REIT's tax-exempt income derived from properties held before the New Units were issued is to be paid only in respect of the units in issue prior to the New Units being issued. The notional earnings for the first half of the year is thus computed on this basis.

The total number of units in issue during the first half of the year includes the units issued to the Manager 496,797 (2004: 471,649) as base fee for the period 1 January 2005 to 30 June 2005 and a further 5,520,064 units issued for the acquisition fee in relation to the acquisition of additional properties during the second equity offering.

The total number of units in issue during the second half of the year includes the units issued to the Manager of 1,124,236 (2004: 501,966) on 16 January 2006 (12 January 2005) as base fee for the period 1 July 2005 to 31 December 2005 (1 July 2004 to 31 December 2004).

Diluted earnings per unit is the same as the weighted average basic earning per unit as there are no dilutive instruments in issue during the current financial year nor outstanding at the end of the financial year.

27 DISTRIBUTION POLICY

	2005 HK\$'000	2004 HK\$'000
Distributions to Unitholders during the year comprise of:		
2005		
Distribution of 16.40 Hong Kong cents per Unit for the period 1 July 2004 to 31 December 2004	78,010	-
Distribution of 16.47 Hong Kong cents per Unit for the period 1 January 2005 to 27 June 2005	78,417	-
2004		
Distribution of 12.43 Hong Kong cents per Unit for the period 4 July 2003 to 31 December 2003	-	58,892
Distribution of 17.00 Hong Kong cents per Unit for the period 1 January 2004 to 30 June 2004	-	80,709
Total	156,427	139,601

27 DISTRIBUTION POLICY (cont'd)

Fortune REIT's distribution policy is to distribute 100% of its Tax-Exempt Income (except gain on revaluation of properties and dividends paid out of interest income and gains, which are distributable at the discretion of the Manager) after deduction of applicable expenses. Tax-Exempt Income consists of dividends receivable in Singapore from the property companies which are paid out of income subject to Hong Kong Profits Tax at a rate of not less than 15%. These income will be distributed on a semi-annual basis to Unitholders and will be paid by the Manager within 60 days from the end of each distribution period. Under the Trust Deed, the Manager is required to pay distributions within 60 days of the end of each distribution period.

The distribution per unit is based on the income available for distribution for the relevant distribution period and the number of units in issue as at the end of each distribution period plus the number of units to be issued after the distribution period to the Manager as base fee for the last quarter of the relevant distribution period as follows:

Distribution period	Income available for distribution HK\$'000	Number of units '000	Distribution per unit HK cents
<u>Year ended 31 December 2005</u>			
1 January 2005 to 27 June 2005	78,431	476,131	16.47
28 June 2005 to 31 December 2005	138,300	803,046	17.22
Total	<u>216,731</u>		<u>33.69</u>
<u>Year ended 31 December 2004</u>			
1 January 2004 to 30 June 2004	80,709	474,757	17.00
1 July 2004 to 31 December 2004	78,047	475,671	16.40
Total	<u>158,756</u>		<u>33.40</u>

28 SEGMENTAL REPORTING

Fortune REIT's business is investing in retail shopping malls and all the existing properties are located in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

29 OPERATING LEASE COMMITMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Minimum lease income under operating leases included in the profit and loss statement	399,499	230,362

As at the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of mall premises were as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Future minimum lease payments receivable:		
Within one year	353,822	234,926
In the second to fifth year inclusive	291,977	165,935
After five years	3,661	-
Total	649,460	400,861

30 SUBSEQUENT EVENTS

On 16 January 2006, Fortune REIT issued 1,124,236 units to the Manager of Fortune REIT at HK\$5.779 per unit as base fee for the period from 1 October 2005 to 31 December 2005.

UNITHOLDERS' STATISTICS

As at 14 February 2006

ISSUED AND FULLY PAID-UP UNITS

Date	Event	No of Units	Amount (HK\$)	Price (HK\$)
12-08-03	Initial public offering	473,000,000	2,234,045,650 ¹	4.7500
16-10-03	Manager's base fee	285,275	1,318,969	4.6235
13-01-04	Manager's base fee	508,329	2,562,639	5.0413
01-04-04	Manager's base fee	491,656	2,534,746	5.1556
02-07-04	Manager's base fee	471,649	2,534,786	5.3743
01-10-04	Manager's base fee	411,900	2,562,641	6.2215
12-01-05	Manager's base fee	501,966	3,163,792	6.3028
06-04-05	Manager's base fee	460,047	3,095,012	6.7276
28-06-05	Equity fund raising	318,796,148	1,986,100,002	6.2300
18-07-05	Acquisition fee	5,520,064	34,390,000	6.2300
18-07-05	Manager's base fee	496,797	3,189,041	6.4192
03-10-05	Manager's base fee	977,811	5,907,156	6.0412
16-01-06	Manager's base fee	1,124,236	6,496,964	5.7790
Total Units outstanding		803,045,878		

Note:

1. After volume discount.

There were 803,045,878 Units (voting rights: one vote per Unit) outstanding as at 14 February 2006. There is only one class of units in Fortune REIT.

TOP TWENTY UNITHOLDERS

As shown in the Register of Substantial Unitholders as at 14 February 2006

Ranking	Unitholders	No. of Units	% of total
1	Focus Eagle Investments Limited	216,516,342	26.96
2	DBS Nominees Pte Ltd	192,309,083	23.95
3	Raffles Nominees Pte Ltd	163,541,282	20.37
4	Citibank Nominees Singapore Pte Ltd	66,051,776	8.23
5	Meren Pte Ltd	28,110,000	3.50
6	HSBC (Singapore) Nominees Pte Ltd	27,148,970	3.38
7	DBS Vickers Securities (S) Pte Ltd	19,851,000	2.47
8	DB Nominees (S) Pte Ltd	15,045,000	1.87
9	United Overseas Bank Nominees Pte Ltd	7,419,000	0.92
10	Morgan Stanley Asia (Singapore) Securities Pte Ltd	5,016,000	0.62
11	NTUC Fairprice Co-operative Ltd	1,948,000	0.24
12	BNP Paribas Nominees Singapore Pte Ltd	1,857,000	0.23
13	Tan Chee Jin	1,650,000	0.21
14	Merrill Lynch (Singapore) Pte Ltd	1,536,300	0.19
15	Bank of East Asia Nominees Pte Ltd	1,095,000	0.14
16	Chan U Seek	1,050,000	0.13
17	Teng Ngiek Lian	977,000	0.12
18	Lai Chooi Foong	842,000	0.10
19	Liew Chee Kong	765,000	0.10
20	Royal Bank of Canada (Asia) Ltd	715,000	0.09
Total		753,443,753	93.82

UNITHOLDERS' STATISTICS

As at 14 February 2006

SUBSTANTIAL UNITHOLDERS

As shown in the Register of Substantial Unitholders as at 14 February 2006

	No. of units	
	Direct interest	Deemed interest
1 Focus Eagle Investments Limited	216,516,342	–
2 Ballston Profits Limited	58,995,000	–
3 DBS Bank Ltd	51,700,000	927,500 ⁴
4 The Capital Group Companies, Inc.	–	51,199,500
5 Cheung Kong (Holdings) Limited	–	275,512,072 ¹
6 Hutchison Whampoa Limited	–	58,995,000 ²
7 DBS Group Holdings Ltd	–	52,627,500 ³
8 Temasek Holdings (Private) Limited	–	55,689,500 ⁵
9 Schroder Investment Management Group	–	58,103,700 ⁶

Notes:

1. Cheung Kong is deemed to be interested in 275,512,072 units, of which:
 - (i) 216,516,342 units are held by Focus Eagle Investments Limited (a wholly-owned subsidiary of Cheung Kong)
 - (ii) 58,995,000 units are held by Ballston Profits Limited (a wholly-owned subsidiary of Hutchison Whampoa Limited, which in turn is 49.9% owned by Cheung Kong); and
 - (iii) 730 units are held by the Manager (a wholly-owned subsidiary of ARA Asset Management Limited) by virtue of Cheung Kong's ownership of 30% of the shares in ARA Asset Management Limited.
2. Hutchison Whampoa Limited is deemed to be interested in 58,995,000 units held by its wholly-owned subsidiary company, Ballston Profits Limited.
3. DBS Group Holdings Ltd is deemed to be interested in 52,627,500 units held by its subsidiary, DBS Bank Ltd.
4. DBS Bank Ltd is deemed to be interested in 927,500 units held by DBS Asset Management Ltd (a wholly owned subsidiary of DBS Bank Ltd).
5. Temasek Holdings (Private) Limited is deemed to be interested in 55,689,500 units of which:
 - (i) 2,500,000 units are held by Fullerton (Private) Limited (a subsidiary of Temasek Holdings (Private) Limited)
 - (ii) 471,000 units are held by Temasek Fullerton Alpha Pte Ltd (a subsidiary of Temasek Holdings (Private) Limited)
 - (iii) 52,627,500 units are held indirectly by DBS Group Holdings Limited (Temasek Holdings (Private) Limited holds directly and indirectly approximately 28.38% of total issued share capital of DBS Group Holdings Limited)
 - (iv) 91,000 units are held by Singapore Technologies Aerospace Limited (a subsidiary of Temasek Holdings (Private) Limited)
6. Schroder Investment Management Group is deemed to be interested in 58,103,700 units of which:
 - (i) 25,591,000 units are held by Schroder Investment Management Limited
 - (ii) 22,482,000 units are held by Schroder Investment Management (Singapore) Limited
 - (iii) 10,030,700 units are held by Schroder Investment Management (Hong Kong) Limited

SIZE OF HOLDINGS

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of units	% of units
1 - 999	6	0.29	2,831	0.00
1,000 - 10,000	1,237	59.67	6,706,100	0.84
10,001 - 1,000,000	814	39.27	46,192,194	5.75
1,000,001 and above	16	0.77	750,144,753	93.41
Total	2,073	100.00	803,045,878	100.00

MANAGER'S DIRECTORS' UNITHOLDINGS

As shown in the Register of Directors' Unitholdings as at 21 January 2006.

		No. of units	
		Direct interest	Deemed interest
1	Lim Hwee Chiang, John	-	1,124,730 ¹
2	Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei)	110,000	-

Note:

- Mr. Lim Hwee Chiang, John is deemed to be interested in 1,124,730 units held by the Manager (a wholly-owned subsidiary of ARA Asset Management Limited) by virtue of Mr. Lim's ownership of 70% of the shares in ARA Asset Management Limited, the holding company of the Manager.

FREE FLOAT

Based on information made available to the Manager as at 14 February 2006, approximately 45.1% of the units in Fortune REIT is held in public hands. Under Rule 723 of the Listing Manual of the SGX-ST, a listed issuer must ensure that at least 10% of its listed securities are at all times held by the public.

ADDITIONAL INFORMATION

RELATED PARTY TRANSACTIONS

The transactions entered into during the financial year with an "interested person" or an "interested party" which fall under the Listing Manual of the SGX-ST and Property Funds Guidelines respectively are as follows:

Name of Related Party	Aggregate value of all related party transactions entered during the financial period under review (excluding transactions of less than S\$100,000 (HK\$474,000 ¹ equivalent) each)
	HK\$'000
Base rent and charge-out collections	
A.S. Watson Group (HK) Limited	26,941
Clayton Power Enterprises Limited	822
Cheung Kong Property Development Limited	788
Total	28,551

Save as disclosed above, there were no additional related party transactions (excluding transactions of less than S\$100,000 (HK\$474,000 equivalent) each) entered during the year ended 31 December 2005.

Please also see Significant Related Party Transactions in Note 5 in the financial statements.

Note:

- Exchange rate as at 3 January 2005.

SUBSCRIPTION OF FORTUNE REIT UNITS

As at 31 December 2005, an aggregate of 801,921,642 units were in issue. On 16 January 2006, Fortune REIT issued 1,124,236 units to the Manager as base fee for the period from 1 October 2005 to 31 December 2005.

CORPORATE INFORMATION

Manager

ARA Asset Management (Singapore) Limited
9 Temasek Boulevard
#09-01 Suntec Tower 2
Singapore 038989
Telephone: +65 6835 9232
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Directors of the Manager

Chiu Kwok Hung, Justin
Chairman and Director

Lim Hwee Chiang, John
Director and Chief Executive Officer

Ip Tak Chuen, Edmond
Director

Yeung, Eirene
Director

Lim Lee Meng
Independent Director

Cheng Mo Chi, Moses
Independent Director

Sng Sow-Mei
(Phoon Sui Moy Alias Poon Sow Mei)
Independent Director

Audit committee

Lim Lee Meng
Independent Director (Chairman)

Cheng Mo Chi, Moses
Independent Director

Sng Sow-Mei
(Phoon Sui Moy Alias Poon Sow Mei)
Independent Director

Company secretary of the Manager

Yap Lune Teng

Trustee

HSBC Institutional Trust Services (Singapore) Limited
21 Collyer Quay
#10-01 HSCB Building
Singapore 049320
Telephone: +65 6534 1900
Facsimile: +65 6533 1077

Legal adviser

Allen & Gledhill
One Marina Boulevard #28-00
Singapore 018989
Telephone: +65 6890 7188
Facsimile: +65 6327 3800

Unit registrar

Lim Associates (Pte) Ltd
10 Collyer Quay
#19-08 Ocean Building
Singapore 049315
Telephone: +65 6536 5355
Facsimile: +65 6536 1360

Auditors of the Trust

Deloitte & Touche
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809
Telephone: +65 6224 8288
Facsimile: +65 6538 6166
(Partner-in-charge: Cheng Ai Phing)
(Appointed on 3 November 2003)

Stock exchange

BBG: FRT SP Equity
RIC: FORT.SI

Website

www.fortunereit.com



FORTUNE REAL ESTATE INVESTMENT TRUST
Managed by ARA Asset Management (Singapore) Limited