



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

FORTUNE REAL ESTATE INVESTMENT TRUST • ANNUAL REPORT 2003



Fortune Real Estate Investment Trust (“Fortune REIT”) was listed on Singapore Exchange Securities Trading Limited (“SGX-ST”) on 12 Aug 2003. It holds a portfolio of five retail malls in Hong Kong, worth more than HK\$3 billion (S\$700 million), and is sponsored by Cheung Kong (Holdings) Limited (“Cheung Kong”).

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

Key dates in 2004

Results announcement, 2003 final	27 Jan 2004
Distribution ex-date, 2003 final	4 Feb 2004
Distribution paid, 2003 final	27 Feb 2004
Report published, 2003 annual	5 Mar 2004
Results announcement, first quarter 2004	Early May 2004
Results announcement, first half 2004	Late Jul 2004
Distribution ex-date, 2004 interim	Early Aug 2004
Distribution paid, 2004 interim	Late Aug 2004
Results announcement, third quarter 2004	Early Nov 2004
Results announcement, 2004 final	Late Jan 2005
Distribution ex-date, 2004 final	Early Feb 2005
Distribution paid, 2004 final	Late Feb 2005
Report published, 2004 annual	Early Mar 2005

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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
Chairman

CHENG Mo Chi, Moses
Member

SNG Sow-Mei
(Phoon Sui Moy alias Poon Sow Mei)
Member

COMPANY SECRETARIES OF THE MANAGER

Yap Lune Teng
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(Partner-In-Charge: Cheng Ai Phing)
(Appointed on 3 November 2003)

STOCK EXCHANGE QUOTATION

BBG: FRT SP Equity
RIC: FORT.SI

WEBSITE

www.fortunereit.com

THE YEAR IN BRIEF

HIGHLIGHTS

Fortune REIT's listing on 12 Aug 2003 marked a new era in real estate investment in Hong Kong by being the first real estate investment trust to offer pure exposure to Hong Kong retail assets.

In its inaugural year end (for the period after listing from 13 Aug 2003 to 31 Dec 2003), Fortune REIT's distribution outperformed forecast by 6.2%. The portfolio's valuation increased by 3.5% during

the period, and occupancies and rentals are continuing to rise.



FINANCIAL SUMMARY

	Actual	Forecast ¹	Variance (%)
Period from 13 Aug 2003 to 31 Dec 2003			
Income available for distribution (HK\$m)	58.91	55.47	6.2
Earnings per unit ² (HK cents)	12.04	11.07	8.8
Distribution per unit ² (HK cents)	12.43	11.70	6.2
Annualised tax-exempt distribution yield ³ (%)	6.57	6.19	6.2
As at 31 Dec 2003			
Total assets (HK\$m)	3,379		
Total liabilities (HK\$m)	1,062		
Unitholders' equity (HK\$m)	2,317		
Net asset value per unit (HK\$)	5.18		
Gearing (debt-to-asset) (%)	28		
Units in issue (m) ²	473.3		

Notes:

1. The forecast for the period from 13 Aug 2003 to 31 Dec 2003 was derived from the forecast for the 6-month period ended 31 Dec 2003 stated in the Prospectus dated 28 Jul 2003, on a best estimate basis by the Manager, taking into account the actual number of days in the shorter period from 13 Aug 2003 to 31 Dec 2003 to facilitate a like-for-like comparison with the actual results. Unitholders should read the whole Prospectus for details of the forecasts and projections of Fortune REIT and consider the assumptions used therein and make their own assessments of the performance of Fortune REIT as contained and presented in this report.
2. The total number of units in issue used for the computation was 473.8 million, comprising:
 - (i) the 473.3 million units in issue as at 31 Dec 2003; and
 - (ii) the 0.5 million units paid to the Manager on 13 Jan 2004 as base fee for the calculation period from 1 Oct 2003 to 31 Dec 2003
3. Based on the closing price on 31 Dec 2003 of HK\$4.90

CHAIRMAN'S REPORT



< Chiu Kwok Hung, Justin *Chairman*

“Fortune REIT offers investors pure exposure to Hong Kong retail property in the form of a transparent vehicle that fully pays out its income, thereby reaping the full benefits of the recovery of Hong Kong’s economy and China’s growth.”

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

They say the darkest hour is just before dawn - it certainly was the case in 2003 for Hong Kong. Against the backdrop of an already weak economy at the starting line, business activity was marred by war in the Middle East during the first quarter, and subsequently by the Severe Acute Respiratory Syndrome ("SARS") disease in the second quarter.

Despite these adversities, we listed Fortune REIT on 12 Aug 2003 in Singapore, marking a watershed in the evolution of Hong Kong's real estate market in being the first real estate investment trust ("REIT") to hold assets in Hong Kong. Long popular in Australia and the US, REITs offer investors pure exposure to a diversified portfolio of rent-yielding physical assets.

The turning point for economic sentiment in Hong Kong was brought about by a perfect storm of sorts. Locally, the end of SARS in June gave new breathing space, whilst the signing of the Closer Economic Partnership Agreement with China and the granting of individual travel to Hong Kong for Mainland Chinese tourists paved the way for greater economic integration with the Mainland. Globally, the three year bear market in equities began to turn, spurred by low interest rates and fiscal stimuli.

The return of investors to equities was most pronounced in Asia, outperforming markets in other parts of the world. Much of this was centred on China plays, with Hong Kong benefiting as one of the leading financial centre for the Chinese economy.

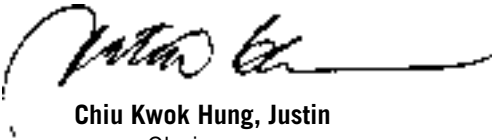
It is against these events that I report to you on Fortune REIT's first set of results, which are for the period after listing from 13 Aug 2003 to 31 Dec 2003. I am happy to report that Fortune REIT outperformed forecast by 6.2%. For investors that had subscribed to the IPO, the annualised tax-exempt yield achieved was 6.8%, versus the forecast of 6.4% based on IPO price of HK\$4.75.

The robust top-line is testament to the defensive quality of Fortune REIT's assets. They are located in the heartlands and cater to the bread-and-butter needs of suburban shoppers. In addition, they also benefit as the general economy recovers.

Looking ahead, Hong Kong will likely continue to play a major role in the epic transformation of China's economy into a global powerhouse.

Fortune REIT offers investors pure exposure to Hong Kong retail property in the form of a transparent vehicle that fully pays out its income, thereby reaping the full benefits of the recovery of Hong Kong's economy and China's growth.

We appreciate greatly your continued support of Fortune REIT and look forward to meeting the opportunities and challenges in the year ahead. A word of thanks is also due to my fellow directors, and of course, management at all levels which have made Fortune REIT's good performance possible.



Chiu Kwok Hung, Justin
Chairman

ARA Asset Management (Singapore) Limited
Manager of Fortune REIT

10 February 2004



The Metropolis Mall

In 2004, we expect the average portfolio rental to experience upward pressure, and the recent renewals and new leases signed have been encouraging.

Fortune REIT's assets performed well in its inaugural year of listing against the backdrop of a weak Hong Kong economy hit by the effects of the war in the Middle East and SARS in the first half of the year. Fortune REIT's malls showed greater resilience due to their locations in mainly suburban areas, with their tenants catering mainly to the daily necessity needs of residents.

Fortune REIT will pay a final distribution per unit ("DPU") of 12.43 Hong Kong cents for the 141-day period from 13 Aug 2003 to 31 Dec 2003. This is 6.2% above the forecast for the period of 11.70 Hong Kong cents, based on the forecasts in the Prospectus dated 28 Jul 2003.

Fig1. Distribution income, 2003¹

	Actual	Forecast ²	Variance
Distribution per unit ³			
- 141 days to Dec 2003 (HK cents)	12.43	11.70	6.2%
- annualised (HK cents)	32.18	30.29	6.2%
Distribution yield (tax-exempt) ⁴			
- based on IPO price ⁵	6.78%	6.38%	6.2%
- based on 31/12/03 price ⁶	6.57%	6.19%	6.2%

Source: ARASL

Notes:

- For the 141-day period from 13 Aug 2003 to 31 Dec 2003. Fortune REIT's policy is to distribute its net tax-exempt income semi-annually (for the half years ending in Jun and Dec)
- See Footnote 1 on Page 1 of this report
- Based on 473.8m units, comprising 473.0m issued at IPO, and 0.8m in base fees paid to the Manager for the 141-day period
- Annualised
- IPO price was HK\$4.75
- Closing price on 31 Dec 2003 was HK\$4.90

2004 FORECAST

Based on the Prospectus, the forecast annual distribution for 2004 is 31.50 Hong Kong cents. Given the current economic conditions in Hong Kong, we expect this to be easily met, barring any unforeseen circumstances.

Fig 2. Income and distribution forecast, 2004 (HK\$m)

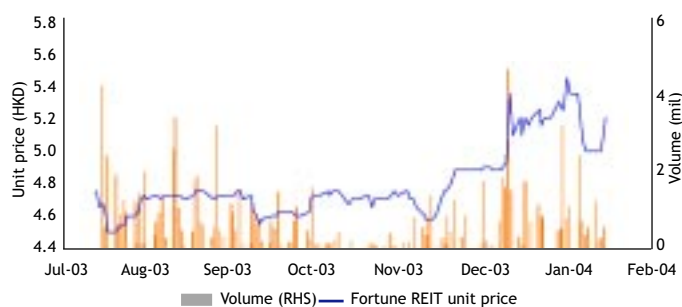
	2004F
Gross property income	304.8
Expenses	93.6
Net property income	211.2
Interest expense	26.9
Net profit before tax	184.3
Taxation	32.3
Net profit after tax	152.0
Trust expenses	13.1
Net profit	138.9
DPU (HK cents)	31.5

Source: Prospectus dated 28 Jul 2003 and based on the same assumptions. Please see Prospectus

UNIT ACTIVITY

Fortune REIT's unit price rose 3.2% from IPO to 31 Dec 2003 to close the year at a high of HK\$4.90. During the period, it reached a low of HK\$4.50. Total volume transacted during the period was 65.5 million units, averaging 0.7 million units daily.

Fig 3. Unit price and volume



Source: ARASL, Bloomberg

Note:

- From 12 Aug 2003 to 12 Feb 2004. The graph excludes volume on the first day of trade of 23.3m units

TRUST REVIEW

Since then, Fortune REIT's unit price has continued to rise, along with higher volume. As at 12 Feb 2004, the unit price was HK\$5.20, which is 9.5% above the IPO price of HK\$4.75.

The total return analysis is less meaningful as Fortune REIT was listed only on 12 Aug 2003 and did not pay any distribution during 2003. On an annualised basis, however, the total return to units of Fortune REIT from IPO to 31 Dec 2003 was 16.4%, comprising 8.2% capital gain and an 8.2% pre-tax annualised distribution yield.

NET ASSET VALUE

As at 31 Dec 2003, Fortune REIT's net asset value per unit was HK\$5.18, which includes the final distributable amount of HK\$0.1243. This compares with the net asset value per unit of HK\$4.81 as at 31 Dec 2002 based on the proforma financial statements disclosed in the Prospectus.

HONG KONG ECONOMIC OUTLOOK

According to preliminary estimates, Hong Kong's economy grew 3.5% in 2003 after a crisp recovery in the second half offset a very weak first half, beset by the effects of war in the Middle East and the SARS disease.

Consensus forecasts for 2004 see growth at around 5.5% as activity is spurred by the improved sentiment, and as the pull-effect from China continues. Having recorded growth of 9.1% in 2003, the fastest in the world, China is expected to continue growing strongly in 2004. It is now the sixth largest economy in the world, with nominal GDP per capita exceeding the US\$1,000 milestone for the first time.

Chinese consumption is spilling over into Hong Kong much quicker now with the more liberal travel arrangements for Mainland tourists going to Hong Kong. In the past, Mainland tourists were restricted to visiting in tour groups - since the middle of 2003, this restriction has been lifted for the residents of China's major cities, and eventually for all Chinese residents. The beneficiaries of this change are Hong Kong's retailers,

and their landlords. Whilst centrally located shops would benefit most, the rising tide is likely to trickle down to suburban malls. Fortune REIT's tenants should benefit. In particular, The Metropolis Mall, which is located adjacent to the Hung Hom Kowloon-Canton Railway Corporation ("KCRC") terminal should benefit most due to the higher passenger traffic from the Mainland.

Business activity in Hong Kong is also being boosted by the Closer Economic Partnership Agreement which was signed with China in mid 2003. In short, China agreed to lower trade impediments with Hong Kong ahead of the rest of the world, as required by its entry into the World Trade Organisation. Effectively, Hong Kong businesses have been given a two to three year head start.

This is not to detract from the structural problems that Hong Kong currently faces. Manufacturing has largely been relocated to southern China. Hong Kong is now, by and large, a services centre, its strengths being finance and transportation.

Hong Kong also ended its fifth year in a row of deflation in 2003. However, as general prices have dropped to competitive levels regionally, and with demand returning, most economists expect a price increase to be registered over 2004.

Unemployment exceeded the 8% mark in mid 2003, the highest on record, but with the economic recovery, decreased to 7.3% in December. The main factor affecting consumer confidence is unemployment (and the threat of it). Lower unemployment increases confidence, and improves retail spending, especially on more luxurious goods. We expect retail sales to rise over 2004 with falling unemployment.

ASSET PERFORMANCE

Committed occupancy rose over the year to 84.4% by year end. Other than The Metropolis Mall (which is relatively new and enjoys a rental guarantee from Cheung Kong and Hutchison Whampoa Limited), average committed occupancy of the malls ended in the high 90's.

Fig 4. Committed occupancy (%)

	Jan - Mar		
	2003 avg ¹	30 Sep 03	31 Dec 03
The Metropolis Mall	53.5	59.1	59.0
Ma On Shan Plaza	94.3	92.4	95.7
The Household Center	95.6	97.7	97.3
Smartland	95.2	96.0	95.6
Jubilee Court Shopping Centre	96.9	97.3	98.1
Portfolio	81.8	83.4	84.4

Source: ARASL, Prospectus dated 28 Jul 2003

Note:

1. Actual occupancy

Given the improved economic sentiment, we expect occupancy at The Metropolis Mall, and therefore the portfolio as a whole, to rise further over 2004.

At The Metropolis Mall, due to its adjacent location to the Hung Hom KCRC terminal, the intention is to sign an anchor tenant catering to China tourist spending. This should increase occupancy of the mall significantly, as well as attract other specialist retailers due to the higher shopper traffic that it would draw.

We believe the potential at Ma On Shan Plaza is very good. The KCRC is opening its new line to Ma On Shan in late 2004, with the main station linked to Ma On Shan Plaza. The KCRC is also building two pedestrian links to the mall, which should see increased shopper traffic. To take advantage of this, we are relocating some tenants to optimize on average mall rental. The shops fronting the links should command better rentals.

Fig 5. Mall rentals

	Average ¹ passing rental (HK\$ psf/mth)	Quarterly change (%)
Mar 2003	14.76	—
Jun 2003	14.74	-0.1
Sep 2003	14.79	0.3
Dec 2003	15.01	1.5

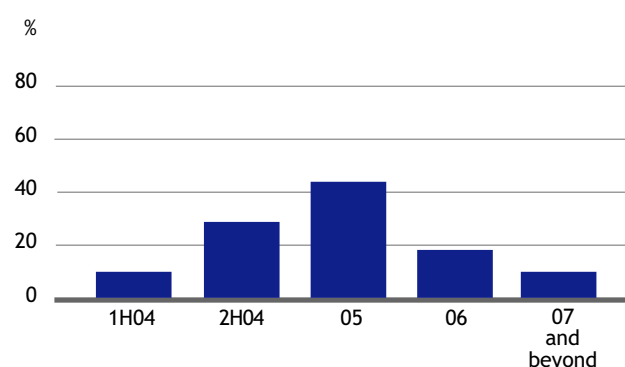
Source: ARASL, Prospectus dated 28 Jul 2003

Note:

1. Base rental and other income (excluding charge-out collections), as at end of period

The average passing rental of Fortune REIT's malls as at 31 Dec 2003 was HK\$15.01 psf per month, an increase of about 1.7% over Dec 2002. In 2004, we expect the average portfolio rental to experience upward pressure, and the recent renewals and new leases signed have been encouraging.

This reflects upward momentum in market rentals and should assist Fortune REIT's bottom line given some 35% of existing leases will expire over 2004.

Fig 6. Portfolio lease expiry¹

Source: ARASL

Note:

1. As at 31 Dec 2003 and in terms of gross rentable area ("GRA")

COST MANAGEMENT

Fortune REIT achieved a cost-to-revenue ratio of 30% for the reporting period. We are targeting a long term ratio of 25%. Currently, no readily available benchmark is available, but we believe this target is at the lower end of the range for malls in Hong Kong generally. Of course, the actual ratio achieved also depends on, not just costs, but also revenue changes. However, we are seeking to achieve this target through cost rationalisation. This includes replacing some equipment at the malls that should lower utilities charges.

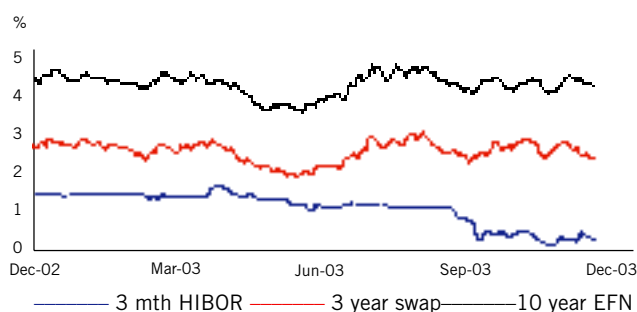
DEBT MANAGEMENT

Over the year, the yield curve for Hong Kong steepened, with short rates falling and long rates largely unchanged. The steepening reflected the improving prospects for the Hong Kong economy and, at the same time, (still) a highly liquid monetary system. The top surprise award for the year must go to the upward pressure which the

TRUST REVIEW

Hong Kong dollar experienced in the second half of the year, demonstrating the highly unpredictable nature of exchange rates. This pressure was due to a weakening US dollar, and to preserve the HK-US dollar peg, the Hong Kong Monetary Authority had to pump more liquidity into the system.

Fig 7. Hong Kong interest rates



Source: ARASL, Bloomberg

In short, Fortune REIT benefited from having a higher proportion of its debt floating. At the time of listing, all of Fortune REIT's debt was floating, on 3-month terms. However, our intention is to eventually fix 50% of Fortune REIT's debt on three to five-year terms.

As at 31 Dec 2003, 37% of the debt was fixed on three-year terms.

Fig 8. Debt structure

	At 31/12/03 (HK\$m)	Limit (HK\$m)	Available (HK\$m)
Term loan	900	900	-
Revolving loan	57	200	143
Total	957	1,100	143

Source: ARASL

Debt-to-asset gearing as at 31 Dec 2003 stood at 28%.

Fig 9. Debt servicing

	Actual	Forecast ¹	Variance
Borrowings cost (HK\$m)	7.8	10.7	-2.9
Avg int. rate ²	2.03%	3.00%	-97bps

Source: ARASL

Notes:

- See Footnote 1 on Page 1 of this report
- Weighted by the relative amounts of fixed and floating debt

PORTFOLIO VALUATION

An independent valuation of Fortune REIT's properties was carried out by Chesterton Petty Limited and showed a rise for all the five properties. The portfolio's valuation rose 3.5%, with the largest increase being that of Ma On Shan Plaza. This reflects the improved prospects for the mall with the impending opening of the link to the new KCRC railway station.

Fig 10. Properties valuation

	31 Dec 03 (HK\$m) ¹	31 May 03 (HK\$m) ²	Change (%)
The Metropolis Mall	1,593	1,560	2.1
Ma On Shan Plaza	1,023	970	5.5
Smartland	276	265	4.2
The Household Center	252	243	3.7
Jubilee Court Shopping Centre	245	237	3.4
Total	3,389	3,275	3.5

Source: ARASL, Chesterton Petty Limited

Notes:

- Valued by Chesterton Petty Limited
- Prospectus dated 28 Jul 2003

ACQUISITIONS

In addition to improving the net income of existing assets, we are sourcing for acquisitions of properties for Fortune REIT that will enhance unitholder value. The moratorium on issue of units (other than units issued to Manager in payment of Manager's base fee), which is necessary for funding such acquisitions, ends on 12 Feb 2004. Separately, the moratorium on acquisitions of properties from related parties (including Cheung Kong (Holdings) Limited Group) ends six months later on 12 Aug 2004.

Fortune REIT's current acquisition growth strategy is to capitalise on opportunities in the Hong Kong retail shopping mall sector.

As for the funding of acquisitions, the likely source will be debt or equity or a combination of debt and equity as Fortune REIT is required to keep its debt-to-asset gearing within 35%.


Lim Hwee Chiang, John
 Chief Executive Officer


Yung Yu-Ming, CFA
 Fund Manager

12 February 2004



	Location	Gross rentable area ¹ (sf)	Valuation at purchase ² (HK\$m)	Latest valuation ³ (HK\$m)	Net property income ⁴ (HK\$m)	Net property yield ⁵ (%)	Govt lease expiry
The Metropolis Mall	Kowloon	332,168	1,560	1,593	36.4	5.9	2047
Ma On Shan Plaza	New Territories	310,084	970	1,023	23.9	6.0	2047
Smartland	New Territories	123,544	265	276	6.8	6.4	2047
The Household Center	New Territories	91,779	243	252	6.7	6.9	2048
Jubilee Court Shopping Centre	New Territories	170,616	237	245	5.9	6.2	2047
Total		1,028,191	3,275	3,389	79.7	6.1	

Notes:

1. As at 31 Dec 2003. Also abbreviated as "GRA"
2. As at 31 May 2003
3. As at 31 Dec 2003
4. For the 141-day period from 13 Aug 2003 to 31 Dec 2003
5. Annualised based on the 141-day period from 13 Aug 2003 to 31 Dec 2003

FORTUNE REIT'S PORTFOLIO – THE METROPOLIS MALL



DESCRIPTION

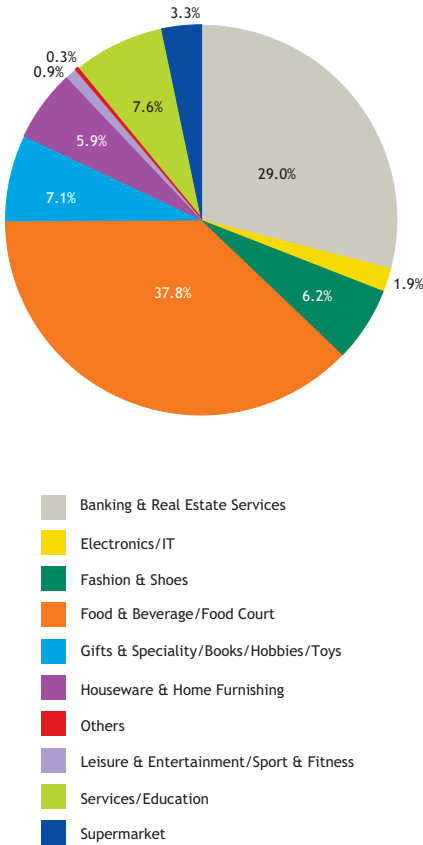
The Metropolis Mall is a new mall located in an established residential and commercial area in south Kowloon. It is part of The Metropolis, a 1.4 million sf integrated retail, office, hotel and service apartment development. It is also connected to the Hung Hom KCRC station (a mass transportation centre which links Kowloon, the New Territories and the PRC) and is served by the Hung Hom bus terminal and a taxi station.

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. It is also 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.

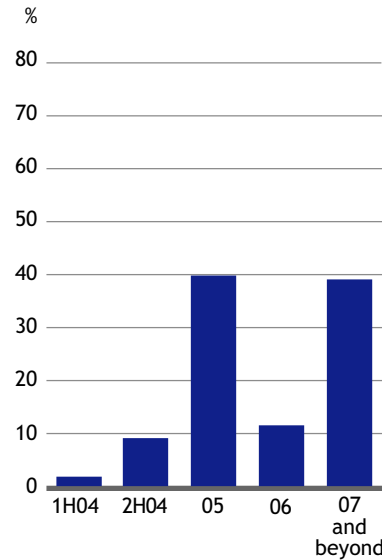


The Manager's current objective for The Metropolis Mall is to improve its income by increasing the mall's occupancy and optimising its tenant mix to take advantage of the growing tourist flow from China on rail at the adjacent Hung Hom KCRC terminal, as well as the growing catchment of residents, hotel guests, students and concert-goers.

**TRADE MIX¹
AS AT 31 DEC 2003**



**LEASE EXPIRY PROFILE¹
AS AT 31 DEC 2003**



Note:
1. In terms of GRA

THE METROPOLIS MALL - TOP FIVE TENANTS AS AT 31 DEC 2003

Tenant	Trade	Occupied space (sf)	% of GRA	% of total base rental income
Kopitiam	food & beverage/food court	31,966	9.6	20.0
Choi Fook Seafood Restaurant	food & beverage/food court	16,971	5.1	12.4
Ryo-zan Paku Japanese Restaurant	food & beverage/food court	7,464	2.2	4.0
Country Road	food & beverage/food court	3,272	1.0	3.5
Baleno	fashion & shoes	3,016	0.9	3.5

Note:
Match Power Investment Limited and Vigour Limited are monthly licensees of The Metropolis Mall and contributed 14.2% and 6.7% respectively of the total base rental income and licence fees of the property for the month ended 31 Dec 2003

Location

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

Title

Government leasehold until
30 June 2047

Date completed

31 March 2001

Gross floor area (sf)¹

344,055

Gross rentable area (sf)¹

332,168

Car parking (lots)

179

Acquisition date

12 August 2003

Valuation at purchase² (HK\$m)

1,560

Latest valuation (HK\$m)

1,593

Latest valuation date

31 December 2003

Valuer

Chesterton Petty Limited

Occupancy (%)¹

58.6

Number of tenants¹

76

Gross rental, 2003³ (HK\$m)

42.9

Net property income, 2003⁴ (HK\$m)

36.4

Notes:

- As at 31 Dec 2003
- As at 31 May 2003
- For the period 13 Aug 2003 to 31 Dec 2003. Includes licence income and rental guarantee from Cheung Kong and Hutchison Whampoa Limited but excludes charge-out collections
- For the period 13 Aug 2003 to 31 Dec 2003

FORTUNE REIT's PORTFOLIO – MA ON SHAN PLAZA



DESCRIPTION

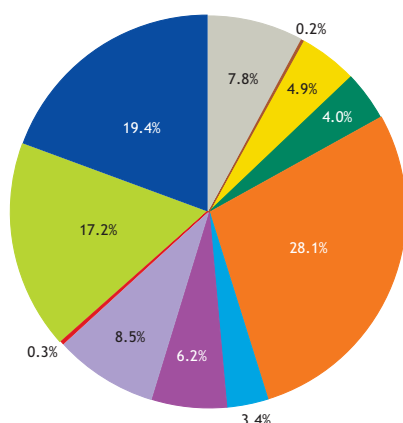
Ma On Shan Plaza is located strategically in Ma On Shan, Shatin, New Territories. The mall is easily accessible by public transportation, taxis and franchised buses with the public light bus terminal, taxi waiting area and bus station on its ground floor. It will also be directly connected to the Ma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

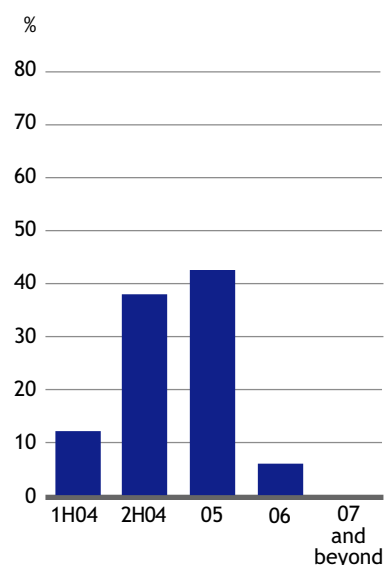
The Manager's current objective for Ma On Shan Plaza is to enhance its income by leveraging off the soon-to-be-completed KCRC railway station and some tenant relocations. Longer term, the objective is to grow its income with the fast-growing Ma On Shan population.

MA ON SHAN PLAZA

TRADE MIX¹ AS AT 31 DEC 2003



LEASE EXPIRY PROFILE¹ AS AT 31 DEC 2003



Note:
1. In terms of GRA

MA ON SHAN PLAZA - TOP FIVE TENANTS AS AT 31 DEC 2003

Tenant	Trade	Occupied space (sf)	% of GRA	% of total base rental income
Park'N Shop	supermarket	56,348	18.2	12.6
Maxim's Chinese Restaurant	food & beverage/food court	49,014	15.8	11.9
Hong Kong Jockey Club	leisure & entertainment/sports & fitness	7,908	2.6	3.9
Shanghai Commercial Bank Limited	banking & real estate services	5,863	1.9	4.4
Standard Chartered Bank	banking & real estate services	3,740	1.2	3.3

Location

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

Title

Government leasehold until
30 June 2047

Date completed

24 December 1994

Gross floor area (sf)¹

319,560

Gross rentable area (sf)¹

310,084

Car parking (lots)

290

Acquisition date

12 August 2003

Valuation at purchase² (HK\$m)

970

Latest valuation (HK\$m)

1,023

Latest valuation date

31 December 2003

Valuer

Chesterton Petty Limited

Occupancy (%)¹

94.6

Number of tenants¹

137

Gross rental, 2003³ (HK\$m)

24.6

Net property income, 2003⁴ (HK\$m)

23.9

Notes:

- As at 31 Dec 2003
- As at 31 May 2003
- For the period 13 Aug 2003 to 31 Dec 2003. Includes licence income but excludes charge-out collections
- For the period 13 Aug 2003 to 31 Dec 2003



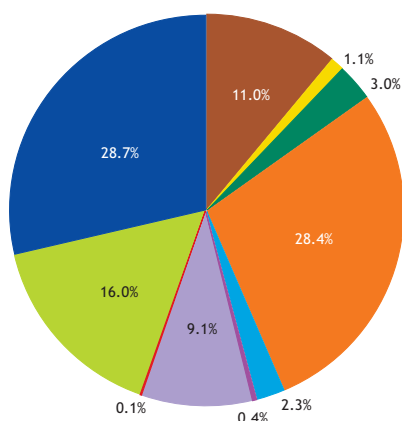
DESCRIPTION

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 a new 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, a leading shopping mall within the Tsuen Wan area, is to capitalise on increasing shopper traffic due to the presence of the new Immigration Office and improve its income.

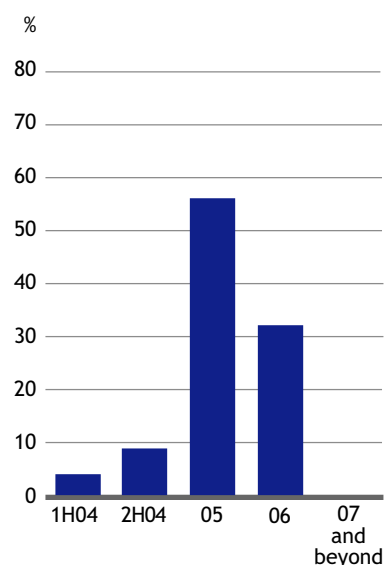


**TRADE MIX¹
AS AT 31 DEC 2003**



- Community Services
- Electronics/IT
- Fashion & Shoes
- Food & Beverage/Food Court
- Gifts & Speciality/Books/Hobbies/Toys
- Houseware & Home Furnishing
- Leisure & Entertainment/Sport & Fitness
- Others
- Services/Education
- Supermarket

**LEASE EXPIRY PROFILE¹
AS AT 31 DEC 2003**



Note:
1. In terms of GRA

SMARTLAND - TOP FIVE TENANTS AS AT 31 DEC 2003

Tenant	Trade	Occupied space (sf)	% of GRA	% of total base rental income
Fook Ho Seafood Hotpot Restaurant	food & beverage/food court	22,920	18.6	19.2
Park'N Shop	supermarket	32,142	26.0	13.5
Hong Kong Immigration Department	community services	12,969	10.5	7.3
Tung Ying Fraternity Association Ltd	leisure & entertainment/sport & fitness	10,341	8.4	7.9
Maxim's Fast Food	food & beverage/food court	4,206	3.4	6.8

Location

No 16, Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong

Title

Government leasehold until 30 June 2047

Date completed

11 June 1981

Gross floor area (sf)¹

125,446

Gross rentable area (sf)¹

123,544

Car parking (lots)

67

Acquisition date

12 August 2003

Valuation at purchase² (HK\$m)

265

Latest valuation (HK\$m)

276

Latest valuation date

31 December 2003

Valuer

Chesterton Petty Limited

Occupancy (%)¹

95.6

Number of tenants¹

86

Gross rental, 2003³ (HK\$m)

7.6

Net property income, 2003⁴ (HK\$m)

6.8

Notes:

- As at 31 Dec 2003
- As at 31 May 2003
- For the period 13 Aug 2003 to 31 Dec 2003. Includes licence income but excludes charge-out collections
- For the period 13 Aug 2003 to 31 Dec 2003

FORTUNE REIT's PORTFOLIO – THE HOUSEHOLD CENTER



DESCRIPTION

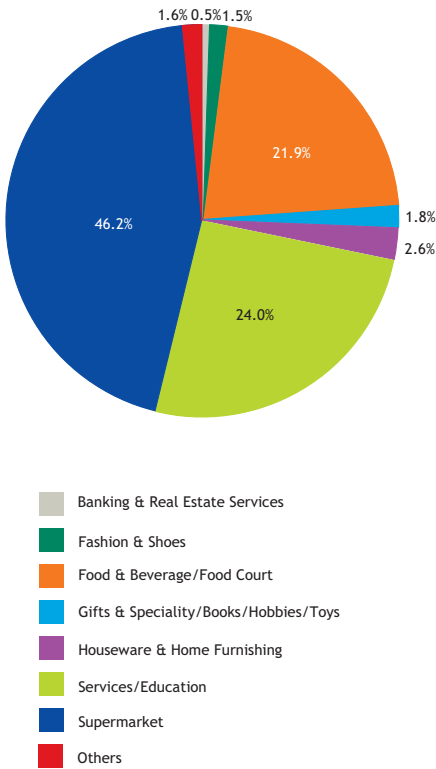
The Household Center is located in a developed urban centre in Kwai Chung, New Territories. The mall caters for the daily needs of residents living in the developments nearby, including those of Nob Hill (a 696-unit residential development which the mall is part of) and the 13,110 residential units in 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 West Rail Mei Foo interchange station designed to cater for a peak hourly interchange of 25,000 passengers.

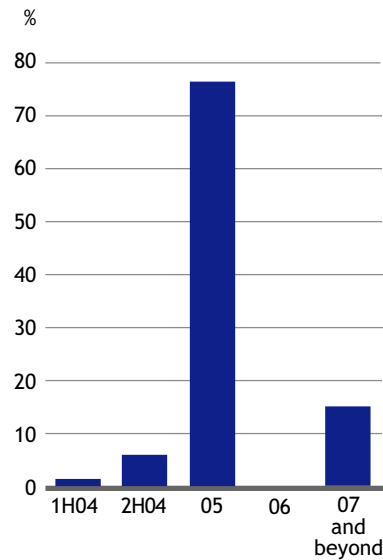
The Manager's current objective for The Household Center is to secure long term income growth by virtue of its location within the established and densely populated Mei Foo area by offering grocery shopping and educational facilities.

THE HOUSEHOLD CENTER

TRADE MIX¹ AS AT 31 DEC 2003



LEASE EXPIRY PROFILE¹ AS AT 31 DEC 2003



Note:

1. In terms of GRA

THE HOUSEHOLD CENTER - TOP FIVE TENANTS AS AT 31 DEC 2003

Tenant	Trade	Occupied space (sf)	% of GRA	% of total base rental income
Park'N Shop	supermarket	41,178	44.9	30.7
Glorious Seafood Restaurant	food & beverage/food court	13,515	14.7	13.7
Think International Kindergarten	services/education	11,941	13.0	5.8
Individual Tenant	food & beverage/food court	2,528	2.8	4.2
Circle K Convenience Store	others	1,475	1.6	4.8

Location

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

Title

Government leasehold until 16 July 2048

Date completed

28 June 2002

Gross floor area (sf)¹

100,599

Gross rentable area (sf)¹

91,779

Car parking (lots)

43

Acquisition date

12 August 2003

Valuation at purchase² (HK\$m)

243

Latest valuation (HK\$m)

252

Latest valuation date

31 December 2003

Valuer

Chesterton Petty Limited

Occupancy (%)¹

97.2

Number of tenants¹

39

Gross rental, 2003³ (HK\$m)

6.7

Net property income, 2003⁴ (HK\$m)

6.7

Notes:

- As at 31 Dec 2003
- As at 31 May 2003
- For the period 13 Aug 2003 to 31 Dec 2003. Includes licence income but excludes charge-out collections
- For the period 13 Aug 2003 to 31 Dec 2003



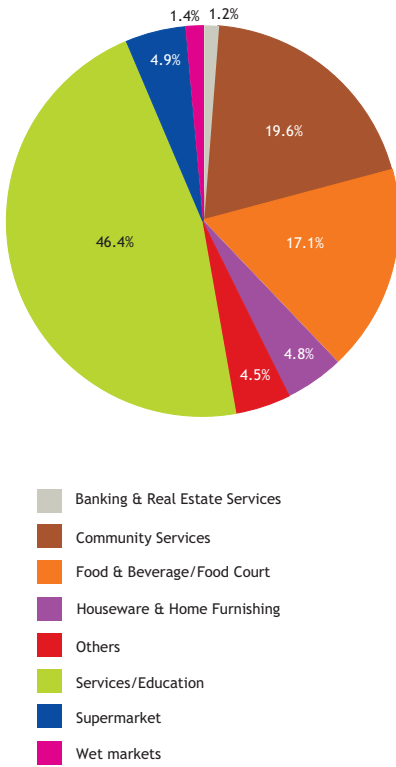
DESCRIPTION

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.

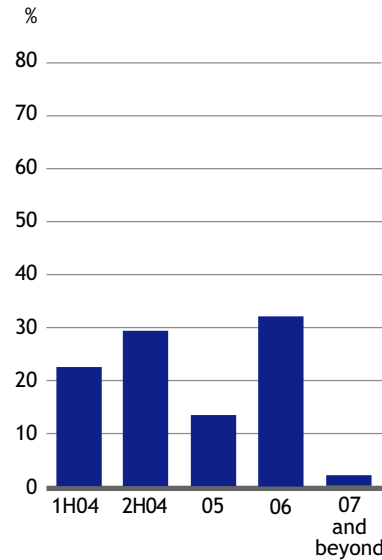
The Manager's current objective for Jubilee Court Shopping Centre is to improve on its positioning as a leading community-based shopping centre, including capitalising on the presence of a new Immigration Office, in the growing Shatin area to derive income growth.



**TRADE MIX¹
AS AT 31 DEC 2003**



**LEASE EXPIRY PROFILE¹
AS AT 31 DEC 2003**



Note:
1. In terms of GRA

JUBILEE COURT SHOPPING CENTRE - TOP FIVE TENANTS AS AT 31 DEC 2003

Tenant	Trade	Occupied space (sf)	% of GRA	% of total base rental income
International Christian Schools Ltd	services/education	57,906	33.9	33.8
Shunde Cuisine Limited	food & beverage/food court	20,205	11.8	7.8
Sha Tin Peace Evangelical Centre	community services	15,717	9.2	9.3
Hong Kong Immigration Department	community services	12,645	7.4	5.4
Park'N Shop	supermarket	8,229	4.8	7.4

Location

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

Title

Government leasehold until
30 June 2047

Date completed

8 May 1986

Gross floor area (sf)¹

172,179

Gross rentable area (sf)¹

170,616

Car parking (lots)

97

Acquisition date

12 August 2003

Valuation of purchase² (HK\$m)

237

Latest valuation (HK\$m)

245

Latest valuation date

31 December 2003

Valuer

Chesterton Petty Limited

Occupancy (%)¹

97.7

Number of tenants¹

52

Gross rental, 2003³ (HK\$m)

6.9

Net property income, 2003⁴ (HK\$m)

5.9

Notes:

- As at 31 Dec 2003
- As at 31 May 2003
- For the period 13 Aug 2003 to 31 Dec 2003. Includes licence income but excludes charge-out collections
- For the period 13 Aug 2003 to 31 Dec 2003



Ma On Shan Plaza



CHIU KWOK HUNG, JUSTIN Chairman

Mr. Chiu is the Chairman of the Manager and is also an Executive Director of Cheung Kong. He joined Cheung Kong in 1997 and has been an Executive Director of Cheung Kong since 2000 heading the real estate sales, marketing and property management team.

Mr. Chiu has more than 25 years of international experience in real estate in Hong Kong as well as other regions and is one of the most respected professionals in the retail property 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 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 both a Director and the Chief Executive Officer of the Manager. From 1997 to 2002, Mr. Lim was an Executive Director of GRA (Singapore) Private Limited ("GRA(S)"), which is a wholly-owned subsidiary of Prudential (US) Real Estate, where he was instrumental in setting up a US\$200,000,000 programme for investing in Asia's retail malls. His responsibilities included overseeing some of its development and key client accounts. He also had overall responsibility for GRA(S)'S investment and asset management activities in South East Asia.



Mr. Lim has over 20 years of experience in real estate and prior to joining GRA(S), he acted as the Founder and Managing Director of The Land Managers, a Singapore-based property and consulting firm specialising 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 for five years from 1991 to 1995. Prior to this, he worked for DBS Land Limited (now known as Capitaland Commercial Limited), a public listed Singapore-based real estate development and investment company for 10 years from 1981 to 1990. He was involved in many retail projects during that period, including the pre-opening marketing, leasing and property management of the Raffles City shopping complex from 1986 to 1989.

Mr. Lim is a Singapore citizen and holds an Engineering degree (First Class Honours), a Masters 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 ("Teckwah") and TSM Resources Ltd, which are both public listed companies, as an Independent Director and a member of the audit committee.

BOARD OF DIRECTORS



IP TAK CHUEN, EDMOND Director

Mr. Ip is a Director of the Manager. Since 1993, Mr. Ip 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 and strategic acquisition and investment of both companies. He is also a Non-Executive Director of TOM.COM LIMITED.

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

Prior to joining Cheung Kong, he has held a number of senior financial positions in major financial institutions and had 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.

YEUNG, EIRENE Director

Ms. Yeung is a Director of the Manager. Ms Yeung is also the Corporate Business Counsel and Company Secretary of Cheung Kong. Ms Yeung joined Cheung Kong in 1994 and currently supervises the corporate and commercial legal work of Cheung Kong and its subsidiaries. She heads the corporate secretarial team which oversees the listing and regulatory compliance of Cheung Kong, CK Infrastructure and CK Life Sciences. She is also the Company Secretary of CK Infrastructure and CK Life Sciences.



Ms. Yeung has extensive legal and corporate secretarial experience. She has covered many areas of law including corporate finance, general commercial, property development, finance, securities, tax and trust, joint ventures, intellectual property and employment laws. She has provided professional advice and support to the legal and regulatory aspects of significant projects in Cheung Kong and its subsidiaries such as the listing of CK Infrastructure in 1996, the restructuring of the Cheung Kong Group in 1997 which involved a total of four listed companies and the listing of CK Life Sciences in 2002.

Prior to joining Cheung Kong, she was in private practice at the law firms of Messrs. Robert W.H. Wang & Co. 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 Administration Region from 1986 and of the Supreme Court of Judicature in England and Wales from 1990. She holds a Bachelor of Laws degree from the University of Hong Kong and a Master’s degree in Business Administration from The Chinese University of Hong Kong and is a panel member of the Hong Kong Institute of Company Secretaries.



LIM LEE MENG Independent Director

Mr. Lim is currently a senior partner of Chio Lim & Associates, a member firm of Horwath International.

Mr. Lim is also an Independent Director of Techwah, Datapulse Technology Limited (“Datapulse”), Tye Soon Ltd and Eurotronic Group Ltd (“Eurotronic”). He also serves as the Chairman of the audit committees of Teckwah, Datapulse and Eurotronic.

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 graduated from the Nanyang University of Singapore with a Bachelor of Commerce (Accountancy) in May 1980. 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.

From 1980 to 1984, Mr. Lim was an auditor with Arthur Young & Company and from 1984 to 1987, he was the Group Financial Controller with the Lauw & Sons group of companies.



CHENG MO CHI, MOSES Independent Director

Mr. Cheng 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 OBE by Her Majesty the Queen of the United Kingdom and appointed a Justice of Peace by the Hong Kong Government in 1997.

Mr. Cheng is currently the Chairman of the Hong Kong Institute of Directors and the Chairman of the Council and the Court of the Hong Kong Baptist University. He is also the Deputy Chairman of the GEM Listing Committee and the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited. He is also a member of the Education Commission of Hong Kong, the Citizens Advisory Committee on Community Relations of the ICAC of Hong Kong, the Basic Law Promotion Steering Committee of Hong Kong, the Court of The University of Hong Kong, the Council of the Hong Kong Academy for Performing Arts

and the Joint Training Committee of The Stock Exchange of Hong Kong Limited. He is an active Rotarian and served as District Governor of Rotary International District 3450 in 1993 and 1994.

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 currently the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd for business development in the areas of defence, industrial & commercial systems projects including intelligent building and property management systems. Singapore Technologies Electronics Ltd is a member of the Singapore Technologies Pte Ltd group in which Mrs Sng was the Director, Special Projects (North East Asia) in 2000 and a Consultant in 2001. Mrs Sng is concurrently the Advisor of InfoWave Pte Ltd, a newly established company which specialises in design, development and supply of mobile platform and wireless, communications technologies.



Prior to the appointments with the Singapore Technologies and Singapore Technologies Electronics, Mrs Sng was the Managing Director of CapitaLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. CapitaLand Limited, listed on SGX-ST, is the property arm of the Singapore Technologies Pte Ltd.

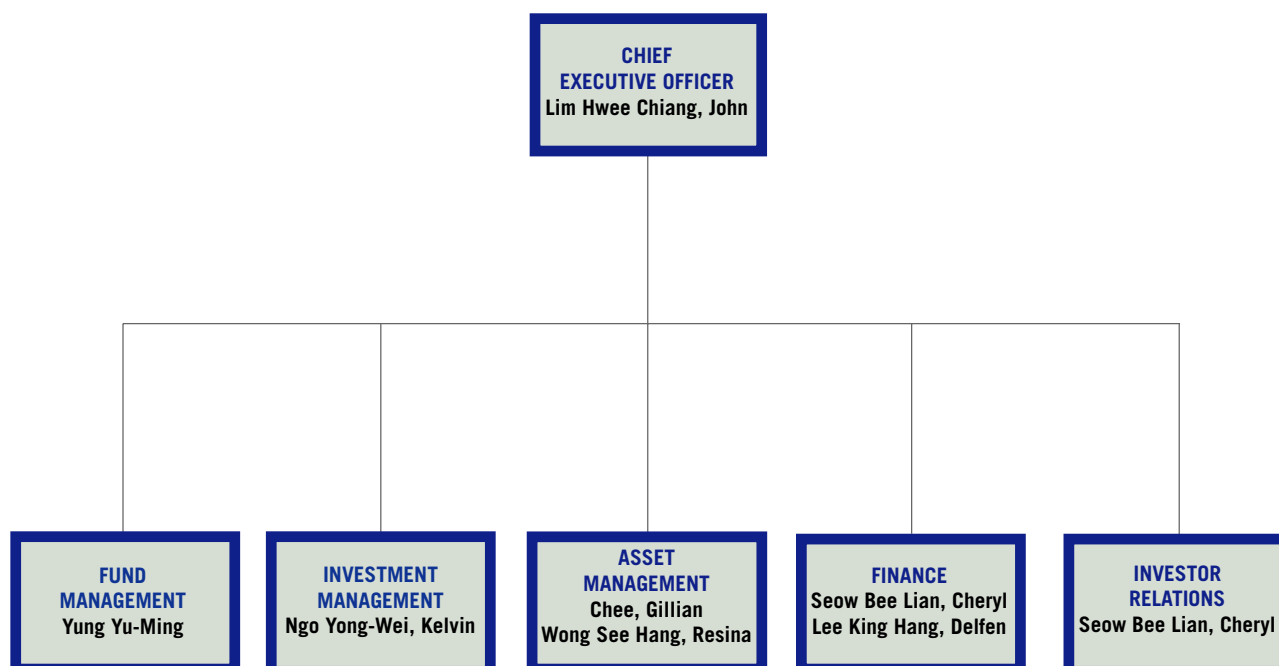
Mrs Sng has spent 15 years from 1983 to 1997 in Hong Kong as the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively to promote bi-lateral investment and trade between Singapore, Hong Kong and south China. Mrs Sng was Singapore's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

Before joining the Singapore government overseas offices in Hong Kong, Mrs Sng worked in Australia in the late 60s for one and a half years and in Japan in the early 70s for two and a half years in the field of international marketing for consumer products.

Mrs Sng graduated in 1963 with Bachelor of Arts 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, on Singapore National Day, Mrs Sng was conferred the title of PPA (P) - Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver) by the then President of Singapore Mr Ong Teng Cheong for her contribution to the country.

MANAGEMENT TEAM



YUNG YU-MING Fund Manager

Mr. Yung is the Fund Manager of the Manager and is responsible for overseeing the fund management activities of the Manager. He has nine years of experience in the investment industry in the Asia Pacific region including Australia, Singapore, Hong Kong, Malaysia, Philippines and Thailand from 1995 to 2003. His most recent role was as an Associate Director with UBS Warburg, Singapore from 2000 to 2002, in the area of mergers and acquisitions involving real estate companies in Asia.

His previous appointment was as an Assistant Vice President of Real Estate from 1999 to 2000 with the Government of Singapore Investment Corporation where he was involved in managing real estate entities and real estate investments in the Asia-Australia region.

Mr. Yung, who is an Australian citizen, started off his career in 1995 in Sydney, Australia with BIS Shrapnel in economics and property research (including research in relation to listed property trusts). In 1997, he joined one of Australia's leading boutique fund managers, now called Perennial Investment Partners, where he was an investment analyst in Asian equities. He is a holder of the Chartered Financial Analyst charter and a Bachelor of Economics (First Class Honours) and Law degree from the University of Sydney.

NGO YONG-WEI, KELVIN Investment and Research Manager

Mr. Ngo is the Investment and Research Manager of the Manager and is responsible for the research and underwriting of deals. Prior to joining the Manager, he was an Asset Manager with GRA(S) from 2000 to 2002. He was involved in setting up a US\$200,000,000 programme for investing in Asia's retail malls and its first asset acquisition and subsequent asset enhancement programme. In addition, he undertook various asset management functions including monitoring and improving asset performance and periodic reporting to investors.

Mr. Ngo has over eight years experience in research, investment underwriting and asset management. Before GRA(S), he spent four years as a Senior Analyst with CB Richard Ellis in Singapore where he covered real estate research, conducted feasibility studies and provided consultancy services for both local and foreign multinational corporations like financial institutions, real estate developers and foreign real estate funds.

Mr. Ngo began his career in 1995 setting up the research department of MPI International Pte Ltd, a local real estate agency and covered the industrial property sector. He is a Singapore citizen and holds a Bachelor of Science (Economics) degree, Second Class Honours from the University of London.

MANAGEMENT TEAM

SEOW BEE LIAN, CHERYL Finance Manager and Investor Relations Manager

Ms. Seow is one of the Finance Managers of the Manager and is also the Investor Relations Manager of the Manager. She has more than 14 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 L.C. Development Ltd ("LC Development"), a company which is listed on the SGX-ST, from 1998 to 2002. 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. During her time with LC Development, Ms Seow oversaw the financial and corporate secretarial matters of LC Development and its subsidiaries. She was also one of the key personnel involved in the construction of serviced apartments in Laos and a hotel in Phuket.

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 (the "Lum Chang Group"). She was also involved in a restructuring exercise of the Lum Chang Group.

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.

LEE KING HANG, DELFEN Finance Manager

Mr. Lee is one of the Finance Managers and has over 12 years of professional experience in auditing and accounting and has extensive experience in the property sector in Hong Kong.

Prior to joining Cheung Kong in 1996, Mr. Lee worked for Ernst & Young and Grant Thornton after graduation in 1991 in the audit and corporate advisory services areas.

Mr. Lee holds a Bachelor of Arts with Honours in Accountancy degree from The Hong Kong Polytechnic University and is an Associate Member of the Hong Kong Society of Accountants and a fellow with The Association of Chartered Certified Accountants.

CHEE, GILLIAN Asset Manager

Ms. Chee is one of the Asset Managers of the Manager and is responsible for the asset management of the Manager. She has over 10 years of experience in the property investment market in Asia. Prior to joining the Manager, she was the Associate Director and Head of Investment Consultancy at Chesterton Petty Limited in Hong Kong from 1998 to 2002, where her responsibilities included overseeing investment sales in Hong Kong, Singapore, Shanghai, Beijing, Taiwan and Seoul. She has acted on behalf of mortgagees, liquidators and institutions for portfolio sales.

Ms. Chee was also an Assistant Director (Valuation) of Vigers Hong Kong Limited for two years from 1997 to 1998 where she worked as a specialist consultant in providing regional development advice on mixed-used development and hospitality projects.

Ms. Chee began her career in Singapore. From 1992 to 1997, she was in the business development unit of Scotts Holdings Limited (now known as The Ascott Limited), a public listed company in Singapore which manages serviced apartments in various countries. During that period, she was the Project Manager and was involved in the company's investment and expansion of its chain of serviced apartments in London, Bangkok, Jakarta and Malaysia.

Ms Chee is a Singapore citizen and is a registered estate agent with the Hong Kong Estate Agency Authority and a student member of the Hong Kong Institute of Surveyors. She holds a Bachelor of Science (Estate Management) degree, Second Class Honours, from the National University of Singapore.

WONG SEE HANG, RESINA Asset Manager

Ms. Wong is one the Asset Managers of the Manager and is responsible for leasing, marketing and strategic planning of the assets under the Manager. She has more than 15 years of experience in property management and has been actively involved and responsible for managing over 6,000,000 sq ft of prime retail, office, residential and industrial properties of Cheung Kong. Ms. Wong has also devised marketing campaigns, created trade-mix plans and has been involved in lease administration. In addition, Ms Wong has been responsible for arcade promotion plans, credit control functions and in the implementation of improvement and renovation works of the properties belonging to Cheung Kong.

Ms Wong holds a Bachelor of Arts (Honours) from the University of Hong Kong.



The Metropolis Mall

COMMUNICATION WITH UNITHOLDERS

The listing rules of SGX-ST require 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 MASNET 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 in Hong Kong and Singapore, 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 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 organised by the SGX and the Real Estate Developers' Association of Singapore.

ENQUIRIES

Interested parties are also welcome to contact ARASL at +65 6835 9232 or may choose to email us at enquiries@fortunereit.com.

Fortune REIT's website is at www.fortunereit.com. It 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.

DISTRIBUTIONS

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

Fortune REIT is exempt from Singapore income tax on dividends received from the property companies that are distributed out of income which are subject to Hong Kong profits tax at a rate of not less than 15%. Unitholders or investors receiving distributions made by Fortune REIT out of such tax-exempt income will also not be assessable to Singapore income tax on the distributions received.



Smartland

ARASL, 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 are properly and efficiently carried out.

THE MANAGER OF FORTUNE REIT

The Manager has general power 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 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 carry on and conduct its business in a proper and efficient manner and to ensure that Fortune REIT is carried out on 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 and all other relevant legislation, the listing rules of the SGX-ST, the Code on Collective Investment Schemes, including the Property Funds Guidelines, the Trust Deed, the tax ruling dated 10 June 2003 issued by the Minister of Finance of Singapore and all relevant contracts.
4. Attending to all regular communications with Unitholders.
5. Supervising the Property Manager, Goodwell-Fortune Property Services Limited, which performs the property management, lease management, marketing services for Fortune REIT's properties, pursuant to the property management agreement.

CORPORATE GOVERNANCE

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 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 Manager 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 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.

Three Board meetings were held from the period from 4 July 2003 (prior to the listing of Fortune REIT on the SGX-ST on 12 August 2003) to 31 December 2003.

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 of managing 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 Chairman and Chief Executive Officer, provide a healthy and professional relationship between the Board and management.

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 directors of the Manager 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.

One Audit Committee meeting was held for the period from 12 August 2003 to 31 December 2003.

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 reviewing the adequacy of existing audits in respect of cost, scope and performance.

The Audit Committee's responsibilities also include:

1. reviewing external 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 the financial statements and the internal audit report; and
4. monitoring the procedures established to regulate Related Party Transactions (as defined below), including

CORPORATE GOVERNANCE

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 has also conducted a review of all non-audit services provided by the auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the auditors.

DEALINGS IN FORTUNE REIT UNITS

In general, the Manager’s policy encourages the directors and employees of the Manager to hold units in Fortune REIT but prohibits them from dealing in the Units:

1. in the period commencing one month before the public announcement of Fortune REIT’s annual, semi-annual and, as the case may be and as applicable, quarterly results and (where applicable) 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 Monetary Authority of Singapore (“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 or, as the case may be and as applicable, quarterly results and (where applicable) 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 risk 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.

DEALINGS WITH CONFLICTS OF INTEREST

The Manager has established 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 or be involved in any other real property business.
2. Save for Ms Wong See Hang, Resina and Mr Lee King Hang, Delfen who are seconded from Cheung Kong on a full-time basis for a period of three years from the listing date, all Executive Officers will be employed by the Manager. To mitigate any potential conflict of interests, as part of the terms of the secondment, during the period of secondment, both Ms Wong See Hang, Resina and Mr Lee King Hang, Delfen shall undertake to report to the Manager and not Cheung Kong and shall owe their duties and obligations to the Manager and act in the best interests of Fortune REIT. Under the terms of such secondment, any confidential information gained in the course of secondment with the Manager shall also be kept confidential.
3. The entry into any Related Party Transaction must be reviewed and/or approved by the Audit Committee by a majority vote.
4. 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) who shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee, on behalf of Fortune REIT, has a *prima facie* case against the party allegedly in breach under such agreements, 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 their Units 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 the trustee of Fortune REIT and whether by itself or through the property companies which own the investment property forming the portfolio of Fortune REIT or other single purpose companies and a related party of the Manager or Fortune REIT ("Related Party Transactions") 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 following criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the Manager, or obtaining one or more valuation from independent valuers (in accordance with the Property Funds Guidelines).

CORPORATE GOVERNANCE

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 Fortune REIT's net asset value 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 Fortune REIT's net asset value 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 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 Fortune REIT's net asset value 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 (where applicable) 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 for and on behalf 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 normal commercial terms, are not prejudicial to the interests of Fortune REIT and the Unitholders and 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 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 the 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 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 conducted during the relevant financial year.

COMMUNICATION WITH UNITHOLDERS

The listing rules of the SGX-ST require 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 MASNET 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 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 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 and special focus 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).

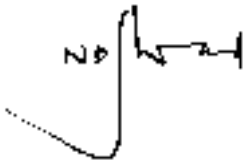
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Bermuda Trust (Singapore) Limited (the “Trustee”) is under a duty to take into custody and hold the assets of Fortune Real Estate Investment Trust (“Fortune REIT”) held by it or through its property companies (“Group”, which shall mean Fortune REIT 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 between the Trustee and the Manager (the “Trust Deed”) in each annual accounting period 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 period 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
Bermuda Trust (Singapore) Limited



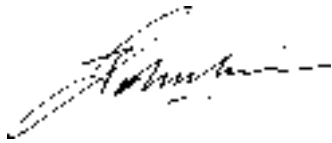
Nigel Stead
Director

Singapore
27 January 2004

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 consolidated financial statements of the Group set out on pages 40 to 60, comprising the Balance Sheets, Statements of Return, Statements of Movements in Unitholders' Fund, Investment Properties Portfolio Statement, Consolidated Cash Flow Statement and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position of Fortune REIT and of the Group as at 31 December 2003, and of the return and movements in Unitholders' fund of Fortune REIT and of the Group and cash flows of the Group for the period from the date of inception on 4 July 2003 to 31 December 2003, and have been properly prepared in accordance with the stated accounting policies of Fortune REIT and the Trust Deed. 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
27 January 2004

AUDITORS' REPORT TO THE UNITHOLDERS OF FORTUNE REIT

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 period from the date of inception of Fortune REIT on 4 July 2003 to 31 December 2003 as set out on pages 40 to 60. These financial statements are the responsibility of the Manager and the Trustee 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 consolidated financial statements of the Group present fairly, in all material respects, the financial position of Fortune REIT and of the Group as at 31 December 2003, the return and movements in Unitholders' fund of Fortune REIT and of the Group and cash flows of the Group for the financial period from the date of inception of Fortune REIT on 4 July 2003 to 31 December 2003, and have been properly prepared in accordance with the stated accounting policies of Fortune REIT and the Trust Deed.

We have considered the financial statements and auditors' reports of all the property companies of the Group of which we have not acted as auditors, being financial statements which have been included in the consolidated financial statements of the Group. The names of these property companies are indicated in Note 8 to the financial statements.

We are satisfied that the financial statements of the property companies that are consolidated with the financial statements of Fortune REIT are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations as required by us for those purposes. The auditors' reports on the financial statements of the property companies were not subject to any qualification.

Certified Public Accountants

Cheng Ai Phing
Partner
Singapore
27 January 2004

BALANCE SHEETS
As at 31 December 2003

	Note	Group HK\$'000	Fortune REIT HK\$'000
ASSETS AND LIABILITIES			
Current assets			
Cash and bank balances	5	89,779	69,645
Trade and other receivables	6	37,533	59,561
Total current assets		127,312	129,206
Non-current assets			
Loans to property companies	7	–	1,547,626
Investments in property companies	8	–	531,486
Investment properties	9	3,389,000	–
Negative goodwill	10	(137,564)	–
Total non-current assets		3,251,436	2,079,112
Total assets		3,378,748	2,208,318
Current liabilities			
Trade and other payables	11	68,605	6,043
Short-term borrowing	12	57,000	–
Provision for taxation		1,501	8
Total current liabilities		127,106	6,051
Non-current liabilities			
Borrowings	12	900,000	–
Deferred tax liabilities	13	34,498	–
Total non-current liabilities		934,498	–
Total liabilities		1,061,604	6,051
Net assets		2,317,144	2,202,267
UNITHOLDERS' FUNDS			
Equity and reserves			
Issued equity	14	2,235,365	2,235,365
Unit issue costs	15	(89,101)	(89,101)
Revaluation reserves		113,850	–
Accumulated profits		57,030	56,003
Total Unitholders' funds		2,317,144	2,202,267
Units in issue ('000)		473,285	
Net asset value per unit (HK\$)	16	5.18	

See accompanying notes to financial statements.

STATEMENTS OF RETURN
For the period from 4 July 2003 (date of inception) to 31 December 2003

	Note	Group HK\$'000	Fortune REIT HK\$'000
Revenue	17	113,620	59,510
Property operating expenses	18	(33,927)	–
Net property income		79,693	59,510
Manager's base fee		(3,882)	(3,882)
Amortisation of negative goodwill	10	1,218	–
Foreign currency exchange adjustment gain		1,618	1,618
Net trust expenses	19	(1,235)	(1,235)
Profit before taxation and borrowings cost		77,412	56,011
Borrowings cost	20	(7,850)	–
Profit before taxation		69,562	56,011
Income tax expenses	21	(12,532)	(8)
Net profit		57,030	56,003
Income available for distribution	22	58,910	–
Basic earnings per unit (cents) - weighted average	23	12.04	
Basic earnings per unit (cents) - notional	23	12.04	
Distribution per unit (cents)	24	12.43	

See accompanying notes to financial statements.

STATEMENTS OF MOVEMENTS IN UNITHOLDERS' FUND
For the period from 4 July 2003 (date of inception) to 31 December 2003

	Note	Group HK\$'000	Fortune REIT HK\$'000
OPERATIONS			
Net profit		57,030	56,003
Appreciation on revaluation of investment properties		113,850	–
Increase in net assets resulting from operations		170,880	56,003
UNITHOLDERS' TRANSACTIONS			
Creation of units	14	2,234,046	2,234,046
Manager's base fee paid in units	14	1,319	1,319
Total issued equity		2,235,365	2,235,365
Unit issue costs	15	(89,101)	(89,101)
Increase in net assets resulting from Unitholders' transactions		2,146,264	2,146,264
Net assets at end of period		2,317,144	2,202,267

See accompanying notes to financial statements.

INVESTMENT PROPERTIES PORTFOLIO STATEMENT

As at 31 December 2003

Description of property	Tenure of land	Term of lease	Remaining term of lease	Location	Acquired from ⁽¹⁾	Valuation HK\$m
The Metropolis Mall	Leasehold	50.5 years	43.5 years	Nos. 6 - 10 Metropolis Drive, The Metropolis, Kowloon, Hong Kong	Vigour Limited	1,593
Ma On Shan Plaza	Leasehold	55.5 years	43.5 years	No. 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong	Cheung Kong Investment Company Limited	1,023
Smartland	Leasehold	149 years	43.5 years	No. 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong	Cheung Kong Investment Company Limited	276
The Household Center	Leasehold	50 years	44.5 years	No. 8 King Lai Path, Kwai Chung, New Territories, Hong Kong	Alpine Profits Limited	252
Jubilee Court Shopping Centre	Leasehold	149 years	43.5 years	Nos. 2 - 18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong	Beautiland Company Limited and Cheuk Kin Investment Company Limited	245
Total						3,389

⁽¹⁾ These companies are related to Cheung Kong (Holdings) Limited (the Sponsor of Fortune REIT). Fortune REIT owned the investment properties through the acquisition of the property companies which owned these properties.

On 31 May 2003, an independent valuation was undertaken by Chesterton Petty 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 five properties were based on the Investment Method, Direct Comparison Method and Discounted Cash Flow Analysis. The valuations adopted amounted to HK\$3,275,000,000. On 12 August 2003, Fortune REIT acquired the property companies which own the above properties at a discount of HK\$138,782,000 on these valuations.

On 31 December 2003, independent valuations were undertaken by Chesterton Petty Limited based on the Investment Method, Direct Comparison Method and Discounted Cash Flow Analysis. The valuations adopted amounted to HK\$3,389,000,000. The increase in valuation has been taken to the Statements of Movements in Unitholders' Fund of the Group.

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.

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the period from 4 July 2003 (date of inception) to 31 December 2003

	Group HK\$'000
Operating activities	
Profit before taxation	69,562
Adjustments for:	
Manager's base fees	3,882
Amortisation of negative goodwill	(1,218)
Borrowings cost	7,850
Operating profit before working capital changes	80,076
Increase in trade and other receivables	(10,685)
Decrease in trade and other payables	(5,405)
Cash generated from operations	63,986
Income tax paid	(9,590)
Net cash from operating activities	54,396
Cash flows from investing activities	
Acquisition of property companies (Note A)	(2,068,562)
Upgrading of investment properties	(150)
Net cash used in investing activities	(2,068,712)
Financing activities	
Proceeds from issue of new units (net of issue costs)	2,144,945
Repayment of borrowings	(33,000)
Borrowings cost	(7,850)
Net cash from financing activities	2,104,095
Net increase in cash and bank balances, representing cash and bank balances at end of period	89,779
Notes to the consolidated cash flow statement	
A. Summary of the effects of acquisition of property companies:	
Non-current assets	(3,275,000)
Non-current liabilities	927,286
Net current liabilities	139,820
Group's share of net assets acquired	(2,207,894)
Negative goodwill arising	138,782
Payment for acquisition of property companies	(2,069,112)
Net cash acquired	550
Consideration net of cash acquired	(2,068,562)

See accompanying notes to financial statements.

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 27 January 2004.

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 (“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 Bermuda Trust (Singapore) Limited respectively and their registered offices and principal places of business are at 7 Temasek Boulevard, #12-03 Suntec City Tower 1, Singapore 038987 and 20 Raffles Place, #13-01/05 Ocean Towers, Singapore 048620, respectively. The financial statements are expressed in Hong Kong dollars as the majority of the Group’s transactions are denominated in Hong Kong dollars.

Fortune REIT was formally admitted to the Official List of 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 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.

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 the Sponsor, will receive from each of the five property companies a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

(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 Standard, 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.

(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 and 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 listing of Units in Fortune REIT on a stock exchange are charged against the Unitholders' Fund.

(f) 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. The surplus or deficit on revaluation (net of deferred tax where applicable) is taken to the asset revaluation reserve except when the total of the reserve is not sufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the asset revaluation reserve is charged to the statement of return as an expense. The asset revaluation reserve is released to the statement of return as and when the related revalued property is sold.

(g) 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, Fortune REIT and the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense in the statement of return immediately, unless the relevant asset is land or building which is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased

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carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income in the statement of return immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) 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. Negative goodwill is released to the statement of return based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to the statement of return in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over 44 years, which represents the remaining average useful life of the investment properties acquired through the property companies. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in the statement of return immediately.

Negative goodwill arising on the acquisition of the property companies is presented separately in the balance sheet as a deduction from assets.

(i) 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.

(j) Revenue recognition

Rental income is recognised, on a straight-line basis, over the terms of the respective leases.

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 income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rates applicable, on an effective yield basis.

Dividend income from the property companies is recognised when the right to receive payment has been established.

(k) Borrowings cost

Borrowings cost are recognised as an expense in the statement of return in the period in which they are incurred.

(l) Foreign currency transactions and translation

Transactions in foreign currencies are recorded using the rates ruling on the date of the transaction. 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 profits and losses are dealt with in the statement of return.

(m) Derivative financial instruments

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in the statement of return.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in the statement of return.

Derivative financial instruments that are designated as hedging instruments are dealt with in the same manner as the underlying hedged items.

(n) Taxation

Taxation on the returns 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' fund, in which case it is recognised in Unitholders' Fund.

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.

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.

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31 December 2003

The Inland Revenue Authority of Singapore (“IRAS”) 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 IRAS to be capital gains.

3 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.

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 2003, 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 on proceeds from its initial public offering ("IPO") which were partially collected in Singapore dollars. The foreign currency risk is managed by the Manager on an ongoing basis.

Fair value of financial assets and financial liabilities

The carrying values of financial assets and financial liabilities reported in the balance sheet approximate their fair values.

4 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, interest-free and without fixed repayment terms unless stated otherwise.

Significant related party transactions, other than those disclosed elsewhere in the notes to statements of return:

	Group HK\$'000	Fortune REIT HK\$'000
Base rental	(13,375)	–
Charge-out collections	(6,733)	–
Building management expenses	2,345	–
Management fee and other charges	19,972	–
Carpark agency fee	711	–
Rental compensation under Guarantee	(25,372)	–

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:

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- 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.

5 CASH AND BANK BALANCES

	Group HK\$'000	Fortune REIT HK\$'000
Cash at bank and in hand	17,672	12,938
Fixed deposits with financial institutions	72,107	56,707
Total	89,779	69,645

Effective interest rate and repricing analysis:

	Effective interest rate %	Total HK\$'000	Within 3 months HK\$'000
<u>Group</u>			
Fixed deposits with financial institutions	0.2610%	72,107	72,107
<u>Fortune REIT</u>			
Fixed deposits with financial institutions	0.2610%	56,707	56,707

6 TRADE AND OTHER RECEIVABLES

	Group HK\$'000	Fortune REIT HK\$'000
a) <u>Trade receivables</u>		
Outside parties	3,828	–
Less allowances for doubtful trade receivables	(116)	–
	3,712	–
Property companies (dividend receivable)	–	59,510
Related parties:		
– Rental compensation under Guarantee (Note 4)	25,372	–
– Others	144	51
Total trade receivables	29,228	59,561

b) Other receivables and prepayments

Deposits	7,503	–
Other receivables	233	–
Prepayments	569	–
Total other receivables and prepayments	<u>8,305</u>	–
 Total trade and other receivables	 <u>37,533</u>	 <u>59,561</u>
 Movement in allowances:		
Balance at beginning of period	–	–
Charge to statement of return for the period	<u>116</u>	–
 Balance at end of period	 <u>116</u>	 –

7 LOANS TO PROPERTY COMPANIES

The loans to property companies are unsecured and do not bear interest. They are not expected to be repaid within the next 12 months.

8 INVESTMENTS IN PROPERTY COMPANIES

	Fortune REIT HK\$'000
Unquoted equity shares, at cost	<u>531,486</u>

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT %	Cost of investment by Fortune REIT HK\$'000	Principal activities in Hong Kong
Poko Shine Limited	Hong Kong	100	151,258	Property investment in Ma On Shan Plaza
Yee Pang Realty Limited	Hong Kong	100	144,831	Property investment in Jubilee Court Shopping Centre
Vision Million Limited	British Virgin Islands	100	128,809	Property investment in The Metropolis Mall
Art Full Resources Limited	Hong Kong	100	70,431	Property investment in The Household Center
Quick Switch Limited	British Virgin Islands	100	36,157	Property investment in Smartland
Total			<u>531,486</u>	

All the property companies were related to the Sponsor before they were acquired by Fortune REIT.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

9 INVESTMENT PROPERTIES

Details of the investment properties are set out in the Investment Properties Portfolio Statement.

10 NEGATIVE GOODWILL

	Group HK\$'000
Gross Amount:	
Arising on acquisition of property companies and at end of period	(138,782)
Amortisation:	
Amortisation during and at end of period	1,218
Net book value:	
At end of period	(137,564)

11 TRADE AND OTHER PAYABLES

	Group HK\$'000	Fortune REIT HK\$'000
a) Trade payables		
Tenant's deposits		
– Outside parties	39,579	–
– Related parties (Note 4)	183	–
Rental received in advance		
– Outside parties	1,160	–
Total trade payables	40,922	–
b) Other payables		
Trustee's fee	174	174
Manager's base fee	2,563	2,563
Unit issue costs	2,875	2,875
Operating expenses	22,071	431
Total other payables	27,683	6,043
Total trade and other payables	68,605	6,043

12 BORROWINGS

	Group and Fortune REIT HK\$'000
Long-term borrowings:	
Term loans	900,000
Short-term borrowing:	
Revolving loan	57,000
Total	957,000

Under the facility agreement between a bank and the property companies, the bank has granted the property companies an omnibus unsecured facility of HK\$1.1 billion, comprising a HK\$900 million term loan and HK\$200 million revolving credit facility.

The total facilities drawdown by the property companies as at 31 December 2003 were HK\$957 million, consisting of:

- i) HK\$900 million term loan bearing interest at floating interest rate ranging from 0.9125% to 1.7875% per annum, fully repayable in August 2008. Under the facility agreement, the property companies have the option to prepay the loans 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 which allow it to swap floating rate borrowings into fixed rate borrowings. As at 31 December 2003, the fixed interest rates of borrowings vary from 3.28% to 3.38% per annum.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts at 31 December 2003 are disclosed in Note 25.

- ii) HK\$57 million revolving loan bearing interest at floating interest rate ranging from 0.7250% to 1.7875% per annum. The final maturity is in August 2008.

The effective interest rates and repricing analysis:

Interest bearing borrowings - Group	Effective interest rate %	Carrying value HK\$'000	Repricing within 3 months HK\$'000
Term loans	1.4834	900,000	900,000
Revolving loan	1.5079	57,000	57,000
Total		957,000	957,000

13 DEFERRED TAX LIABILITIES

	Group HK\$'000	Fortune REIT HK\$'000
Deferred tax liabilities	34,498	-

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

At beginning of period	-	-
Charge to statement of return for the period	7,212	-
On acquisition of property companies	27,286	-
At end of period	34,498	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

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

Deferred tax liabilities/(assets)

	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
<u>Group</u>			
At beginning of period	–	–	–
On acquisition of property companies	59,415	(32,129)	27,286
Charge to statement of return for the period	4,720	2,492	7,212
At end of period	<u>64,135</u>	<u>(29,637)</u>	<u>34,498</u>

14 ISSUED EQUITY

	Group and Fortune REIT	
	No. of units '000	HK\$'000
Creation of 473,000,000 units on 12 August 2003 at HK\$4.75 per unit after volume discount, in conjunction with the listing of Fortune REIT on SGX-ST (“Initial Public Offering - IPO”)	473,000	2,234,046
Creation on 16 October 2003 at HK\$4.6235 per unit as payment of Manager’s base fee from 13 August 2003 to 30 September 2003	285	1,319
At end of period	<u>473,285</u>	<u>2,235,365</u>

On 13 January 2004, Fortune REIT issued 508,329 units to the Manager at HK\$5.0413 per unit as base fee for the period from 1 October 2003 to 31 December 2003.

15 UNIT ISSUE COSTS

IPO expenses totalling HK\$89.1 million have been charged against the Unitholders’ Fund. Included in the unit issue costs are amounts paid to the auditors of Fortune REIT of HK\$1.27 million for acting as independent reporting accountants for the IPO of Fortune REIT and provision of other services relating to the IPO.

16 NET ASSET VALUE PER UNIT

The net asset value per unit is calculated based on the total net assets of the Group excluding negative goodwill. The total number of units used for computing the net asset value per unit is 473,793,604. This comprises:

- i) the number of units in issue as at 31 December 2003 of 473,285,275; and
- ii) the units payable to Manager on 13 January 2004 as base fee for the period from 1 October 2003 to 31 December 2003 of 508,329.

17 REVENUE

	Group HK\$'000	Fortune REIT HK\$'000
Net dividend income	–	59,510
Base rental	51,065	–
Charge-out collections	24,216	–
Rental guaranteed for net property income	25,002	–
Rental guaranteed for net parking space income	370	–
Short-term rental	12,967	–
Total	<u>113,620</u>	<u>59,510</u>

18 PROPERTY OPERATING EXPENSES

	Group
Number of employees at end of period	<u>Nil</u>
	Group HK\$'000
Utilities	5,968
Reimbursement of staff costs	4,329
Contribution to Estate Common	4,283
Service contracts and maintenance	3,952
Advertising and promotion	2,859
Government rents and rates	2,534
Manager's performance fee	2,465
Property management fee	1,752
Car park expenses	1,750
Audit fees paid to auditors of property companies	125
Other operating expenses	3,910
Total	<u>33,927</u>

19 NET TRUST EXPENSES

	Group & Fortune REIT HK\$'000
Interest income	(34)
Audit fees paid to auditor of Fortune REIT	138
Professional fees	237
Trustee's fee	382
Other charges	512
Total	<u>1,235</u>

NOTES TO THE FINANCIAL STATEMENTS

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20 BORROWINGS COST

	Group HK\$'000
Interest expense on	
– Term loans	7,206
– Revolving loan	479
Commitment fee	165
Total	7,850

21 INCOME TAX EXPENSE

	Group HK\$'000	Fortune REIT HK\$'000
Current – Singapore	8	8
– Foreign	5,312	–
	5,320	8
Deferred (Note 13)	7,212	–
Total	12,532	8

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 22% to profit before income tax as a result of the following differences:

	Group HK\$'000	Fortune REIT HK\$'000
Income tax expense at statutory rate	15,805	13,092
Tax exempt income	–	(13,084)
Effect of different tax rates of overseas operations	(3,233)	–
Other items	(40)	–
Net income tax expense	12,532	8

22 INCOME AVAILABLE FOR DISTRIBUTION

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

23 EARNINGS PER UNIT

The weighted average basic earnings per unit is calculated by dividing the net profit for the current financial period of HK\$57.03 million by 473,482,857 being the weighted average number of units in issue during the period and the 508,329 units issued to the Manager on 13 January 2004 as base fee for the period from 1 October 2003 to 31 December 2003.

The notional basic earnings per unit is based on the net profit for the current financial period of HK\$57.03 million and the number of unit in issue as at 31 December 2003 of 473,285,275 and the 508,329 units issued to the Manager on 13 January 2004 as base fee for the period from 1 October 2003 to 31 December 2003.

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

24 DISTRIBUTION POLICY

Fortune REIT's distribution policy is to distribute 100% of its Tax-Exempt Income (except 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, except for the first distribution, which will be payable for the period from the date of issue of Units on 12 August 2003 to 31 December 2003 and will be paid by the Manager within 60 days from 31 December 2003. 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 current financial period of HK\$58.91 million and the number of units in issue as at 31 December 2003 of 473,285,275 and the 508,329 units issued to the Manager on 13 January 2004 as base fee for the period from 1 October 2003 to 31 December 2003.

25 DERIVATIVE FINANCIAL INSTRUMENTS

The table below sets out the remaining term, notional principal amounts and the fair value of the Group's outstanding interest rate swaps:

	Notional principal amount HK\$'000	Negative fair value HK\$'000
Less than one year	–	–
One to five years	350,000	(5,925)

The interest rate swaps are entered into for hedging purposes.

26 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

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27 OPERATING LEASE ARRANGEMENT

	Group HK\$'000
Minimum lease income under operating leases	<u>75,281</u>

As at the balance sheet date, the Group had contracted with tenants for the following future minimum lease payment receivable:

	Group HK\$'000
Within one year	124,450
In the second to fifth year inclusive	108,825
After five years	<u>216</u>

28 SUBSEQUENT EVENTS

On 13 January 2004, Fortune REIT issued 508,329 units to the Manager of Fortune REIT at HK\$5.0413 per unit as base fee for the period from 1 October 2003 to 31 December 2003.

29 COMPARATIVE FIGURES

The financial statements cover the financial period since inception of Fortune REIT on 4 July 2003 to 31 December 2003. This being the first set of financial statements, there are no comparative figures.

ISSUED AND FULLY PAID-UP UNITS

As at 10 February 2004

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
	Total Units outstanding	473,793,604		

Note:

1. After volume discount

There were 473,793,604 Units (voting rights: one vote per Unit) outstanding as at 10 Feb 2004
There is only one class of units in Fortune REIT.

TOP TWENTY UNITHOLDERS

As at 10 February 2004

As shown in the Register of Unitholders

Ranking	Unitholders	No. of Units	% of total
1	DBS Nominees Pte Ltd	262,995,000	55.51
2	Raffles Nominees Pte Ltd	64,196,000	13.55
3	DBS Vickers Securities (Singapore) Pte Ltd	24,557,000	5.18
4	Citibank Nominees Singapore Pte Ltd	22,160,180	4.68
5	Meren Pte Ltd	20,100,000	4.24
6	United Overseas Bank Nominees Pte Ltd	17,202,000	3.63
7	NTUC Fairprice Co-Operative Ltd	5,000,000	1.06
8	BNP Paribas Nominees Singapore Pte Ltd	3,861,000	0.81
9	HSBC (Singapore) Nominees Pte Ltd	3,370,000	0.71
10	Morgan Stanley Asia (Singapore) Securities Pte Ltd	2,354,820	0.50
11	DB Nominees (S) Pte Ltd	1,455,000	0.31
12	Royal Bank of Canada Nominees Pte Ltd	1,335,000	0.28
13	Cheng Kok Kwang @ Cheng Chia Pan	1,316,000	0.28
14	Tan Chee Jin	1,200,000	0.25
15	Bank of East Asia Nominees Pte Ltd	1,074,000	0.23
16	Song Hup Seng Pte Ltd	1,060,000	0.22
17	Chan Tsui Bik Betty	800,000	0.17
18	HSBC Private Bank (Suisse) SA	712,000	0.15
19	Phillip Securities Pte Ltd	682,000	0.14
20	OCBC Securities Private Ltd	649,000	0.14
	Total	436,079,000	92.04

UNITHOLDERS' STATISTICS

SUBSTANTIAL UNITHOLDERS

As at 10 February 2004

As shown in the Register of Substantial Unitholders as at 10 February 2004

		No. of units	
		Direct interest	Deemed interest
1	Focus Eagle Investments Limited	129,685,000	–
2	Ballston Profits Limited	58,995,000	–
3	DBS Bank Ltd	47,000,000	–
4	The Capital Group Companies, Inc.	–	28,719,000
5	Cheung Kong (Holdings) Limited	–	188,722,604 ¹
6	Hutchison Whampoa Limited	–	58,995,000 ²
7	DBS Group Holdings Ltd	–	47,000,000 ³

Notes:

1. Cheung Kong is deemed to be interested in 188,722,604 units, of which:
 - (i) 129,685,000 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) 42,604 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 47,000,000 units held by its subsidiary, DBS Bank Ltd.

SIZE OF HOLDINGS

As at 10 February 2004

Size of Unitholdings	No. of Unitholders	% of		No. of units	% of units
		Unitholders	Unitholders		
1 - 999	–	–	–	–	–
1,000 - 10,000	1,477	69.44	7,169,000	1.51	1.51
10,001 - 1,000,000	634	29.81	33,388,604	7.05	7.05
1,000,001 and above	16	0.75	433,236,000	91.44	91.44
Total	2,127	100.00	473,793,604	100.00	100.00

MANAGER'S DIRECTORS' UNITHOLDINGS

As shown in the Register of Directors' Unitholdings as at 21 January 2004

		No. of units	
		Direct interest	Deemed interest
1	Lim Hwee Chiang, John	–	508,604 ¹
2	Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei)	100,000	–

Note:

1. Mr. Lim Hwee Chiang, John is deemed to be interested in 508,604 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 10 February 2004, approximately 44.2% 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

Other than the acquisition of the five property companies prior to the listing of Fortune REIT and the existing related party transactions which were disclosed in the IPO Prospectus of Fortune REIT dated 28 July 2003, the transactions entered into during the financial period 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\$450,000 ¹ equivalent) each)
	HK\$'000
Clayton Power Enterprises Limited & Cosmos Wide International Limited - Base rent and charge-out collections	703

Save as disclosed above, there were no additional related party transactions (excluding transactions of less than S\$100,000 (HK\$450,000 equivalent) each) entered into from 12 August 2003, the date of listing of Fortune REIT on the SGX-ST, up to and including 31 December 2003.

Please also see Significant Related Party Transactions in Note 4 in the financial statements.

Note:

1. Exchange rate as at 31 Dec 2003

SUBSCRIPTION OF FORTUNE REIT UNITS

An aggregate of 473,000,000 Units were subscribed for and issued when Fortune REIT was officially listed on the SGX-ST on 12 August 2003. As at 31 December 2003, 473,285,275 Fortune REIT Units were in issue and outstanding. On 16 October 2003 and 13 January 2004, 285,275 and 508,329 Fortune REIT Units were issued to the Manager as base fee for the period from 13 August 2003 to 30 September 2003 and 1 October 2003 to 31 December 2003 respectively.