

## The Fortress Caribbean Property Fund

The Fortress Caribbean Property Fund has produced a net profit of \$706,625 for the six months ended March 31<sup>st</sup> 2011 compared to \$1.86 million for the same period in 2010. The decrease in net earnings is due almost entirely to fair value losses and an impairment charge totalling \$863,783 compared to a gain of \$926,444 in the prior year.

The net asset value per share is now \$1.49, a decline from \$1.50 in the prior year, after paying a dividend of \$0.03 per share in December 2010.

### FAIR VALUE LOSSES & IMPAIRMENT CHARGES

During the period the Fund recorded write downs with respect to its properties of \$863,783 compared to gains of \$926,444 in the prior year. This represents a swing of just under BDS\$1.8m and is the principal reason for the decline in the profits in the current period.

The fair value losses were recorded based on appraised values by Terra Caribbean on Chattel Village, No 24 Broad Street, Apes Hill Polo Villa & Apes Hill Lot.

While the local and regional property market does appear to be stabilizing, the effects from the recession are still being felt and it may still be some time before there is growth in sales and values in the vacation second home markets.

Commercial properties have so far held in well but several new properties will soon come on stream in the Grade 'A' office segment in Warrens which will increase capacity and could put pressure on commercial rental rates.

### VILLAS ON THE GREEN

There were no further sales at Villas On The Green during the period. The market for vacation second homes continues to be very slow. Negotiations were held with a potential investor in the project but to date no agreement has been reached.

A purchaser forfeited a deposit on one of the units resulting in a credit to other income of \$331,091.

This project continues to be a major challenge for the Fund and although there has been an overall improvement in tourism in terms of arrivals, the real estate market has not yet begun to improve.

### LIMEGROVE

Considerable progress has been made during the last six months on the Limegrove Lifestyle Centre with several of the shops already open and the project is expected to be fully open by the end of the year.

We have reached an agreement to rent our unit 'unfurnished' on a short-term basis from July 2011. This will help defray costs and produce some income. Terms will still allow the unit to be shown as the objective is still to sell it.

### COMMERCIAL PROPERTIES

The Fund's commercial property investments including the

BET Building Joint Venture, the CS&C Joint Venture, Sunset Joint Venture, Carlisle House, No 24 Broad Street and the Chattel Village continue to perform well from a rental perspective.

### CARLISLE HOUSE

During the quarter, we lost one of our long standing tenants of the top floor to one of the buildings in Warrens and at the time of writing, the space remains vacant. The loss in rent has been offset by some new tenants on the ground floor and hence the property maintained its appraised value.

### NO 24 BROAD STREET

The front of this property has been upgraded and replaced with glass which significantly enhances the rental value for the tenant. This upgrade will be recovered with increased rents over the lease. Unfortunately the cost of the upgrade of BDS\$295,000 had to be recorded in our income statement as the property value was previously uplifted a year ago in response to an offer to purchase the property at a price over the appraised value.

### SUNSET MALL

The upgrade for this mall is still undecided due to pending approvals from regulatory authorities and the neighbouring landlord. It is hoped that this project will be completed before the 2011/2012 winter season.

### BET BUILDING JOINT VENTURE - LIME, WILDEY

The lease to Lime expires in 2016. The partners have started to explore the alternative options for the building and the site at that time in the event it is not renewed.

Given the excellent location and surrounding amenities we remain very optimistic for the future potential of this property.

### CS&C JOINT VENTURE

The Carters and Cave Shepherd properties continue to perform well. An extension of the lease was signed with Carters for the Barbarees Hill property for a further seven years.

### APES HILL POLO VILLA & APES HILL GOLF LOT

Both of these properties incurred appraised value losses together totalling \$318,000.

We remain convinced of the long-term opportunities for this project and these investments. However, like many other projects, progress has slowed due to the recent recession and it may take some more time for sales and values to recover to previous levels.

### CORAL COVE 15

During the period, an agreement was reached to sell this condominium. The transaction has not yet closed and hence has not been recorded in the financial statements as at March 31<sup>st</sup> 2011.

### WOTTON

We have entered into discussions with a potential partner for a commercial development on this site on a joint venture basis. The feasibility of this is still being explored but the preliminary work suggests that an interesting opportunity is possible.

### LOWER ESTATE

The infrastructure for the sub-division and sale of 16 lots at Lower State is largely complete and we expect the formal launch of this development to take place by the middle of the year. This is an excellent site with great access to the ABC highway and while we expect the sales to be slow in the current weak economic environment, we are confident that this development will do well in the coming years.

### ROCKLEY - CANE GARDEN

The purchase of the remaining 50% interest in this site was completed in the reporting period and there was an additional impairment recorded as the agreement to purchase was made before the current recession commenced.

Revised plans for the development of the site are on-going and will be submitted for approval in the coming months.

### FINANCIAL POSITION & OUTLOOK

The Fund's financial position remains solid with less than 30% total debt to equity.

The loans on the Lime property at Wildey will be fully repaid at the end of 2011 and the Fund will receive additional cash flows from this property.

The Fund's rental income from its commercial assets continue to perform well but the overall returns are being diluted by the holdings in "Real Estate Available For Re-Sale" which are not producing any income or any appreciation in value in the current market conditions.

So far the Caribbean real estate markets have held up remarkably well when compared to what has transpired in the USA where average home prices have lost more than a third of their value and are still falling.

The fiscal stimulus which has been injected into world economies through printing of money and zero interest rates is largely coming to an end and rising inflation due to higher commodity prices will soon start to bear on interest rates in the developed world.

It is still too early to know if the global recovery will continue or if the world will start to stumble again. The cost cutting and austerity measures being adopted by the weaker countries in Europe will have to be adopted by many other developed countries with similar problems. The continuing sovereign debt crisis in Europe and the problems in the US & UK are evidence that serious imbalances in the world remain and that it will be some time until the global financial system is steady again.

Our focus remains to turnover our non-income producing assets and to put new capital to work in higher yielding income producing opportunities.

At March 31<sup>st</sup> 2011 the Fund was trading at \$1.15 per share which is a 23% discount to the Net Asset Value (NAV) of \$1.49 per share.

LIMEGROVE HILLSIDE VILLA



CORAL COVE



WATER HALL POLO VILLAS



VILLAS ON THE GREEN



## FUND DETAILS

### DIRECTORS

Mr. Geoffrey Cave - Chairman  
 Mr. Paul Altman  
 Mr. Anthony Audain  
 Dr. Trevor Carmichael  
 Mrs. Maureen Davis  
 Mr. Terry Hanton  
 Mr. Algernon Leacock  
 Mr. John Williams

### FUND MANAGER

Fortress Fund Managers Ltd.  
 1st Floor, Carlisle House,  
 Hincks Street, Bridgetown,  
 St. Michael, Barbados.  
 Tel: (246) 431 2198  
 Fax: (246) 431 0514  
 Toll Free: (800) 450 6461  
 (US and Canada residents only)  
 E-mail: invest@fortressfund.com  
 Internet: www.fortressfund.com

### INVESTMENT ADVISOR

Altman Real Estate  
 Derricks, St. James, Barbados.  
 Tel: (246) 432 0840  
 Fax: (246) 432 2147  
 E-mail: altman@caribsurf.com  
 Internet: www.aaaltman.com

### INDEPENDENT AUDITORS

PricewaterhouseCoopers  
 The Financial Services Centre,  
 Bishop's Court Hill,  
 St. Michael, Barbados.

### ATTORNEY-AT-LAW

Sir Henry deB. Forde, K.A., Q.C.,  
 Juris Chambers,  
 Attorneys-at-law,  
 Fidelity House,  
 Wildey Business Park,  
 St. Michael, Barbados.

# The Fortress Caribbean Property Fund

HALF YEAR REPORT MARCH 31<sup>ST</sup>, 2011

## Unaudited Consolidated Statement of Financial Position As At March 31, 2011

(expressed in Barbados Dollars)

	31-Mar-11 \$	31-Mar-10 \$
<b>Assets</b>		
Investment properties	84,533,911	82,049,654
Real estate available for re-sale	32,618,350	34,329,625
Cash and cash equivalents	1,508,432	1,562,984
Short term deposits	1,785,580	5,195,405
Financial assets	639,535	473,735
Accounts receivable and prepaid expenses	807,815	791,651
<b>Total assets</b>	<b>121,893,623</b>	<b>124,403,054</b>
<b>Liabilities</b>		
Security and advanced deposits	1,785,605	687,649
Accounts payable and accrued expenses	1,293,221	1,813,700
Loans payable	20,479,094	23,915,520
<b>Total liabilities</b>	<b>23,557,920</b>	<b>26,416,869</b>
<b>Total assets less liabilities</b>	<b>98,335,703</b>	<b>97,986,185</b>
<b>Equity</b>		
Share capital	66,718,500	66,718,500
Retained earnings	16,337,434	16,803,389
<b>Total shareholders' funds</b>	<b>83,055,934</b>	<b>83,521,889</b>
<b>Non-controlling interests</b>	<b>15,279,769</b>	<b>14,464,296</b>
<b>Total equity and non-controlling interests</b>	<b>98,335,703</b>	<b>97,986,185</b>

## Unaudited Consolidated Statement Of Comprehensive Income For The Six Month Period Ended March 31, 2011

(expressed in Barbados Dollars)

	31/03/11 \$	31/03/10 \$
<b>Revenues</b>		
Net rental income	4,027,015	3,667,596
Interest income	57,172	111,504
Net gain on financial assets at fair value through profit or loss	31,163	77,200
Other income	331,925	207
Fair value (losses)/ gains on investment property	(645,067)	926,444
<b>Total investment income</b>	<b>3,802,208</b>	<b>4,782,951</b>
<b>Expenses</b>		
Interest expense	775,558	892,926
Fund management & advisor fees	631,409	613,826
Net carrying costs on real estate available for re-sale	280,238	276,863
Impairment loss on real estate available for re-sale	218,716	-
Audit, listing and other professional fees	192,354	234,372
Office and administrative expenses	13,100	12,330
Directors fees	8,000	8,000
<b>Total expenses</b>	<b>2,119,375</b>	<b>2,038,317</b>
<b>Total comprehensive income for the period</b>	<b>1,682,833</b>	<b>2,744,634</b>
<b>Attributable to:</b>		
Class 'A' common property fund shareholders	706,625	1,860,747
Non-controlling interests	976,208	883,887
	<b>1,682,833</b>	<b>2,744,634</b>
Earning per share	\$0.01	\$0.03

*Certain of the comparative figures have been adjusted to conform with the current year disclosures*

## FUND DETAILS (Bds\$)

	31/03/11	31/03/10
<b>Per Share Data</b>		
Original Share offer price - 20/08/1999	\$1.00	\$1.00
Secondary share offer price - 15/10/2001	\$1.20	\$1.20
Rights issue share offer price-10/03/ 2005	\$1.40	\$1.40
Net Asset Value per share	\$1.49	\$1.50
Number of shares	55,817,101	55,817,101

## EXPENSES

### Fund Manager

0.75% per annum of the net assets of the Fund

### Investment Manager

0.75% per annum of the net assets of the Fund

### Exchange Listings

Barbados Stock Exchange and Trinidad & Tobago Stock Exchange

### Manager

Fortress Fund Managers Ltd.

### Investment Advisor

Altman Real Estate Ltd.

### Property Manager

Property Consultancy Services Inc.

### Independent Valuer

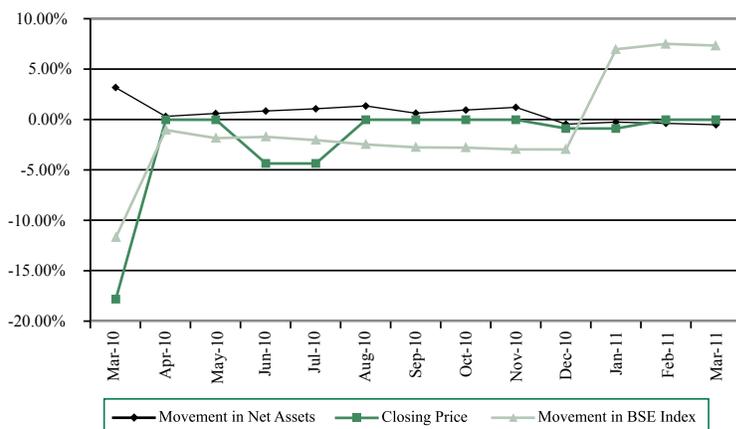
Terra Caribbean

## MOVEMENT IN TOTAL ASSETS, NAV (excluding dividends), CLOSING SHARE PRICE & PREMIUM/DISCOUNT

Date	Net Assets	Net Asset Value/Share	Closing Share Price	Premium/Discount	BSE Index
31-Jan-10	82,217,317	\$1.47	\$1.25	-15.14%	3,205.23
28-Feb-10	82,398,995	\$1.48	\$1.26	-14.65%	3,169.85
31-Mar-10	83,521,889	\$1.50	\$1.15	-23.15%	3,128.66
30-Apr-10	83,756,595	\$1.50	\$1.15	-23.36%	3,096.05
31-May-10	84,001,446	\$1.50	\$1.15	-23.59%	3,070.78
30-Jun-10	84,208,507	\$1.51	\$1.10	-27.09%	3,074.77
31-Jul-10	84,394,467	\$1.51	\$1.10	-27.25%	3,064.51
31-Aug-10	84,630,245	\$1.52	\$1.15	-24.15%	3,051.16
30-Sep-10	84,023,822	\$1.51	\$1.15	-23.61%	3,042.04
31-Oct-10	84,290,524	\$1.51	\$1.15	-23.85%	3,041.00
30-Nov-10	84,513,762	\$1.51	\$1.15	-24.05%	3,035.71
31-Dec-10	83,109,730	\$1.49	\$1.14	-23.44%	3,035.53
31-Jan-11	83,278,032	\$1.49	\$1.14	-23.59%	3,347.25
28-Feb-11	83,174,489	\$1.49	\$1.15	-22.83%	3,363.87
31-Mar-11	83,055,934	\$1.49	\$1.15	-22.72%	3,358.59

2010

2011



## INVESTMENT RETURNS (including dividends)

	3 mths	6 mths	1 Yr	3 Yrs	5 Yrs	Since inception
Share price	0.9%	0.0%	2.6%	-6.1%	-2.1%	4.2%
NAV	-0.1%	-1.2%	1.4%	2.4%	4.5%	5.9%

*Returns longer than 1 year are annual compound returns*