

Fortress Caribbean Property Fund
annual report
2005





Fortress Caribbean Property Fund Limited

INVITATION

Friday, January 13, 2006

Dear Fund Shareholders,

Under the provisions of Clause 2 of the Articles of Fortress Caribbean Property Fund Limited, holders of Redeemable Mutual Fund shares are entitled to vote only in special circumstances by virtue of Sections 202 (3) and 208 (3) of the Companies Act. Nevertheless Fund Shareholders of Fortress Caribbean Property Fund Limited have traditionally been invited to formal meetings of the Fund.

The Directors have been advised that the procedure should be revisited in keeping with the Company's corporate documents and the Industry's practice. Notwithstanding the above, the Directors of the Fund wish to make every effort to continue the cordial dialogue with Fund Shareholders that has been enjoyed from the inception of the Fund.

On this basis the Fund Shareholders are cordially invited to meet with the Board on Tuesday, the 23rd day of February, 2006 at 5:00 p.m. at Sherbourne Conference Centre, Two Mile Hill, St. Michael to review and discuss the performance of the Fund during the preceding year.

A handwritten signature in cursive script that reads "Roger Cave".

Fortress Fund Managers Limited
For and on behalf of the Board of Directors



a vibrant portfolio

Fortress Caribbean Property Fund
annual report
2005

Directors & Administration



DIRECTORS

Mr. Geoffrey Cave C.B.E., B.C.H. - Chairman
Mr. Paul Altman B.C.H.
Dr. Trevor Carmichael Q.C., S.C.M.
Mrs. Maureen Davis
Mr. Chris de Caires, FCA, MBA
Mr. Terry Hanton, FCA

FUND MANAGER & SECRETARY

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BANKER

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St. Michael
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PROPERTY MANAGER

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INDEPENDENT AUDITORS

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

INDEPENDENT VALUER

Terra Caribbean
Ernst & Young Building
Worthing
Christ Church
Barbados



Investment Objectives & Fund Details

The investment objective of the Fortress Caribbean Property Fund is to achieve income and capital appreciation over the long term. The Fund is authorised to invest in real estate, Caribbean listed shares or open-ended funds, foreign listed shares or open-ended funds, unlisted shares of Caribbean companies, and government securities.

FUND NAME:	Fortress Caribbean Property Fund Limited
FUNDTYPE:	Closed-End Fund
LAUNCH DATE:	August 20, 1999
LAUNCH PRICE:	\$1.00 per share
WARRANTS EXERCISE PRICE:	\$1.00 per share
NO. OF SHARES OUTSTANDING:	33,490,261
NET ASSETS - 30/9/2005:	\$42,804,091
NET ASSET VALUE PER SHARE - 30/9/2005:	\$1.28 per share
SHARE PRICE - 30/9/2005:	\$1.60 per share
STOCK EXCHANGE LISTING:	Barbados Stock Exchange (BSE)
MANAGEMENT EXPENSES:	
Manager:	0.75% per annum of the net assets of the Fund
Investment Adviser:	0.75% per annum of the net assets of the Fund
FUND VALUATIONS:	Monthly
INVESTMENT PROPERTY APPRAISALS:	Semi-Annually
NAV QUOTATIONS:	Updated Monthly - Internet - www.fortressfund.com

Directors' Report



The Fortress Caribbean Property Fund produced an excellent financial performance in 2005 with net profits up to \$4.21 million compared to \$2.68 million in 2004, an increase of 56%. This increase is due mainly to a net increase in the appraised value of the property investments of \$1.8 million compared to a gain of \$324,000 in 2004.

In addition to the much improved financial performance, 2005 has been a much better year for the Fund in terms of securing new property opportunities. We are pleased to report that at the end of the year we successfully concluded negotiations on four exciting new investments which placed us in the position of going back to our shareholders for a Rights Issue in October of 2005.

The new investments include a 20% interest in Lime Grove in Holetown, which should be one of the more impressive new commercial and residential developments done thus far in Barbados. We concluded the purchase of a wonderful 16 acre site on Cap Estate in St. Lucia which will be the Fund's first major development project and this will break ground in January of 2006. The Fund took a 24% interest in a partnership that acquired the Carters properties and the Cave Shepherd Broad Street building and this venture should produce steady double digit returns with minimal downside risk for properties in prime locations with solid long term leases. The last property is a 50:50 joint venture with Dowding

Estates to purchase the real estate at Rockley from the receiver and early indications are that this should be a very successful project.

There were also a number of positives on the existing portfolio. After years of delays, the pedestrian plaza to the south of Carlisle House was finally completed, the occupancies on this property have already increased and the independent valuation of the property has been increased to \$10.85 million from \$9.5 million in 2004. The investment which has yielded the largest increase in value was the Villas On The Beach unit which was valued at BDS\$2.5 million an increase of \$725,950 over the cost. The other commercial properties continue to perform in line with projections while the plans for Holders House and Tobago Plantations have yet to materialize.

We are very pleased to report that the Rights Issue subsequent to the year end was a huge success raising \$30.8 million in new capital for the Fund at \$1.40 per share, from issuing 22,326,840 new shares. The issue was significantly oversubscribed and several of the institutional investors who had committed to taking up a large part of the issue, were unable to get any shares at all.

At the time of writing, the Fund was still trading at \$1.60 per share and we expect the Fund to be cross-listed on the Trinidad & Tobago Stock Exchange by the end of January 2006. The Directors increased the dividend to \$0.055

per share for the year ended September 30th 2005 and we look forward to the new projects coming on stream in 2006.

In closing, I would like to thank our Directors and Advisors for their efforts during the year and we look forward to an even better year in 2006.

Geoffrey Cave
Chairman



Manager's Report

The Fortress Caribbean Property Fund performed exceptionally well in 2005 with net profits up 56% to \$4.2 million compared to \$2.7 million in 2004. The net asset value (NAV) per share is now \$1.28 after the accrual of \$0.055 per share dividend and the Fund's return is 10.3% for the year inclusive of the dividend. The shareholder's return was even higher at 14% where the share price moved from \$1.40 per share at September 30th 2004 to \$1.60 per share at the end of September 2005.

Total revenue increased by 26% to \$7.4 million compared to \$5.8 million in 2004, with the largest contributor being an increase of \$1.5 million in fair value to \$1.8 million. While several of our properties recorded increases in their appraised values, the main contributor was the unit at Villas On The Beach which was appraised at \$2.5 million, an increase of \$726k over our cost. This value is in line with comparative sales of other units in this successful development which was completed earlier in the year.

The total expenses for the year were down slightly to \$2.059 million compared to \$2.163 million in 2004. This was due mainly to a reduction in the interest expense on the RBTT loan for the Cable & Wireless Wildey property.

There were no further developments with the Lower Estate, Tobago Plantations or Holders House Properties during the year. Plans are now in place to commence construction on the villa at Tobago Plantations early in 2006. The plans for the Holders property are being

revised in accordance with town planning requirements and hopefully this development will begin towards the end of 2006.

As shareholders are aware, subsequent to the year end, the Fund had a very successful Rights Issue, raising \$30.8 million from the issue of 22,326,840 new shares at BDS\$1.40 per share. The issue was significantly oversubscribed with many applications coming from non-shareholders applying for excess shares. This has put the Fund in a very strong position to finance the new projects identified in the Rights Issue document in addition to several other new opportunities which have been identified in the last three months which the Investment Advisors are evaluating.

The plans for the Lime Grove project are progressing and the target is to break ground towards the middle of 2006. The interest being expressed from potential tenants has been very encouraging and once we can get over a few small hurdles, this should be a very exciting project not only for Fortress, but Holetown and Barbados as well.

All 22 units in the first phase of Rockley sold before the work had even started and therefore this investment should surpass expectations. The CS&C Joint Venture commenced in October 2005 and is earning according to the financial projections that were set.

Looking forward to 2006, the overall performance of the Fund will be tougher

to project as several of the new projects are more developmental in nature and the timing of revenues will be less certain. Generally, the next year or two may show slower growth as the new projects get started but in the near future when these investments begin to mature, expectations are that the Fund should do very well in the coming years.

Roger Cave
Manager

Property Manager's Report



Carlisle House

Location – Bridgetown, Barbados

Cost - \$8.6m (1999)

Tenantable space – 45,056 square feet

Property type - Commercial

The Carlisle Wharf was opened on October 19, 2005 following the completion of the pedestrian plaza, new car parks, landscaping and hardscape works. We are pleased to report that Carlisle House is now 90% occupied with strong interest for the remaining space.

During the year, gross rents increased from \$1,047,000 to \$1,126,000 and net property income increased from \$611,000 to \$647,000, a 5.9% increase. At 90% occupancy the annualised gross rents is expected to rise to \$1,471,000 per annum.

As at October 31, 2005 \$982,000 was spent on plaza works. The valuers have increased their valuation to \$10,850,000 giving rise to a \$368,000 fair value gain as of September 30, 2005.

No 24 Broad Street

Location – Bridgetown, Barbados

Cost - \$5.5m (1999)

Tenantable space – 12,000 square feet

Property type - Commercial

No 24 Broad Street is an office and retail building located in the heart of Bridgetown. During the year a new five year net lease was signed with Duty Free Caribbean, who sublets the ground floor to Colombian Emeralds International. The lease payments are incremented at 3% per annum.

The valuers have increased their valuation to \$7,200,000.

Property Manager's Report cont'd



Chattel Village

Location: Holetown, Barbados

Cost - \$1.55m (1999)

Tenantable space – 8,000 square feet

Property type - Commercial

There have been two changes of tenants in the Chattel Village during the year and the property is fully tenanted. During the year significant maintenance work was done including the painting of units which resulted in a \$48,000 increase in property expenses. The changes in tenants and rate increases during the year marginally affected the gross rental income which increased from \$427,000 to \$434,000 however the net property income decreased from \$217,327 to \$176,071, a decrease of 18.9%.

Due to the amortisation of the lease the valuers have reduced the value by \$50,000 to \$1,570,000. Discussions are ongoing with the Sunset Crest Property Owners' Association to renew the lease, which expires in 2016, for a further 10 years which would result in an increase in value.



Lower Estate

Location – St. Michael, Barbados

Cost - \$ 732,035

Property type – Undeveloped land

This prime industrial 45,000 square foot site is located close to Highway 2. The Directors do not presently have plans to develop the site. The valuers have increased their valuation to \$830,000 resulting in an \$80,000 fair value gain.

Lot 102 Tobago Plantations

Location – Tobago

Cost - \$644,110

Property type – Undeveloped land

This 27,000 square foot lot is located on the third hole of the golf course on the Tobago Plantations master-planned community. The development totals 750 acres, including a 200-room Hilton Hotel and an eighteen-hole golf course. When complete it will have 300 homes. The investment advisor visited the site during the year and plans are being considered for the construction of a three-bedroom house on the lot.

Lot 102 is one of the best on the development and the valuer has maintained the value at \$800,000.

Property Manager's Report cont'd



Holders Site
Location – St. James, Barbados
Cost - \$1.8m (2002)
Size – 158,000 square feet
Property type – Residential property

This is a 3 1/2 acre site with expansive views over Holders Polo Field, the Sandy Lane Green Monkey Golf Course and the sea. A plan submitted to the planning authorities was not approved and the plan has been re-visited for the construction of a six bedroom house to be built and sold. The planning application will be submitted shortly in accordance with the planning requirements.

There is a cottage situated on the property and it is currently being rented on a two year lease.

The Fund continues to hold this asset for its capital appreciation and recognises the development opportunity if a house is developed and sold. The valuers have increased the land value to \$2.4 million.

CWBET Building
Location – St. Michael, Barbados
Cost - \$28.1 million
Tenantable space – 84,838 square feet
Property type – Commercial property

The Fund set up a limited partnership in 2001 to buy this building. The Partners are:

Fortress Caribbean Property Fund	57%
National Insurance Board	33%
Life of Barbados Limited	10%

The building is leased back to Cable & Wireless on a triple net fifteen (15) year lease with rents incrementing at 5% per annum. The return on the investment in the year under review was 23.1%. The valuers have increased the value to \$34.95 million.

Property Manager's Report cont'd



Alanridge Canmore Villa – Unit #5
Location – Alberta, Canada
Cost – CAD\$762 thousand (2004)
Tenantable space – 2,436 square feet
Property type – Residential property

The Fund has purchased a two-bedroom condominium on the Three Sisters Golf Course in Canmore, Alberta, Canada. Three Sisters is one of the last remaining development sites close to Banff National Park in the Canadian Rockies. The unit purchased sits behind one of the greens of the golf course. Since the investment took place the development has been endorsed by a leading Canadian property developer.

The investment is recorded at cost and completion is expected within the next few months.



Villas On The Beach – Unit #305
Location – Holetown, St. James, Barbados
Cost - \$1.8 million (2004)
Size – 1,600 square feet
Property type – Residential property

Villas On The Beach is an eighteen-unit luxury condominium complex. The fund acquired unit 305 in the development stage. The unit is now furnished and is available for rental during the 2005\6 winter.

The units have appreciated significantly since inception and the valuers have valued the unit at \$2.5 million, resulting in a fair value gain of \$726,000.

Property Manager's Report cont'd



Lime Grove Development

Location – Holetown, St. James, Barbados

Cost - \$8.0 million – entire development (2004)

Size – 435,000 square feet

Property type – Undeveloped land

The Fund has taken a 20% interest, at a cost of \$2.0m, in a venture involving the purchase and development of a residential and commercial complex on 435,000 square feet of land in the centre of Holetown.

The site will be developed into a residential and commercial complex in the form of an elegant mini village complete with a shopping centre, luxury homes and lifestyle center.

The construction of the new development will be conducted in a series of phases with Phase 1 consisting of the construction of all retail and commercial facilities in addition to the construction of 14 spacious residential one-bedroom and 2 three-bedroom lofts.

The developers have received planning permission for an original scheme and will make a resubmission to Town & Country Planning for an improved scheme for revision approval. The development will be the first of its kind merging luxury residential accommodation with prime retail, commercial office space and entertainment/restaurant.

The land is recorded at cost which in the opinion of the directors approximates its fair market value.

Carter's Buildings and Land

Location – various

Cost - \$65.7 million – entire joint venture (2005 and 2006)

The Fund has taken a 24% interest in a real estate partnership (The CS&C Joint Venture) which has acquired land and buildings at seven locations in Barbados presently owned by Cave Shepherd & Co. Limited ("Cave Shepherd") and Carter Holdings Limited. The properties include approximately 24 acres of land and 250,000 square feet of retail, office and warehouse space, and represents a diversified portfolio of real estate.

At September 30, 2005 the joint venture has purchased the following properties for \$21.6 million:

- Carter's main retail complex in Wildey, St. Michael
- Original Carter's retail store and head office operation in Barbarees Hill
- Carter's store on High Street, Bridgetown
- 13.5 acres of undeveloped land at Lower Estate

After the year end the joint venture purchased the Cave Shepherd main building at No. 10-14 Broad Street, Bridgetown for \$37.7m and secured a loan of \$35.4m to finance its acquisitions. The joint venture has committed to purchase the Carter's Warehouse complex in Lower Estate, St. George and 3.5 acres of undeveloped land at Lower Estate adjoining the Lower Estate warehouse complex and anticipates exercising this option within the year.



Investment Advisor's Report

Performance of the Fund's Assets

Last year we reported that we had reviewed a number of opportunities many of which were not considered to be wise investments and others which failed in negotiation. We expressed caution about our future investments. However, we did report on the following new investments for 2005:

- Lime Grove;
- Villas On The Beach;
- Canmore Condominium.

During the year under review, the opportunities that were presented to us were of a much higher quality both in terms of returns and risk. We advised the Investment Committee to proceed with a number of them including:

Villas On The Green – St. Lucia

This project involves the purchase of 17 acres of land adjacent to the golf course in St. Lucia for development as a residential community. The acquisition cost is US\$2.6 million or US\$3.50 per square foot. The project has received attractive concessions from the Government of St. Lucia and is expected to commence in early 2006. This project represents our first asset in St. Lucia and our first signature residential community development and is a landmark for Fortress.

Carter's Properties/Cave Shepherd Building

The Fund was offered the opportunity to be part of a syndicate to acquire 5 commercial properties and some 13 acres of development land. The 5 properties were leased back to Carter's and Cave Shepherd. Fortress' interest is 24% of the syndicate. The leasebacks are good and the returns are excellent. Fortress' investment will be BDS\$6 million.

Rockley Recreations

This project involves the purchase of some 60 hotel units along with the central facilities at Rockley from the receiver for BDS\$6.25 million in conjunction with DETCO, our joint venture partner. The properties are to be converted to residential condominiums and townhouses.

Other Opportunities

Since the year end, a number of sound new opportunities have presented themselves and are presently being evaluated. The successful Rights Issue made funds available for additional projects and we expect to be able to utilise these funds at excellent returns and with appreciation potential.



1 October, 2005

The Board of Directors
Fortress Caribbean Property Fund
Carlisle House
Bridgetown

Dear Members of the Board,

As instructed we have conducted appraisals of the properties of the Fortress Caribbean Property Fund and we have formed an opinion of their fair market value as of 30 September, 2005. In accordance with the Uniform Standards of Professional Appraisal Practice (1999), fair market value is defined as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. *buyer and seller are typically motivated;*
2. *both parties are well informed or well advised, and acting in what they consider their best interest;*
3. *a reasonable time is allowed for exposure in the open market;*
4. *payment is made in terms of cash or in terms of financial arrangements comparable thereto;*
5. *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions by anyone associated with the sale.*

We understand that you will be using these values to calculate the net asset value of the fund as at the valuation date. We have assumed that all information provided by the Property Manager representing the Fund is accurate and this information has been included in our report. Our opinion is subject to the limiting conditions attached to the detailed reports.

Generally, the three basic approaches for estimating market value of real property (replacement cost, income capitalization and sales comparison) have been applied. These indicators of value were reconciled to arrive at the final value estimate for each property. A different approach was taken in valuing the Chattel Village because this is a leasehold property. In this case the net economic benefit of the lease was capitalized in order to estimate the value.

The properties appraised were:

- Carlisle House
- Holders Cottage
- Lot 102 Tobago Plantations
- Lot 4N, Lower Estate
- No. 24 Broad Street
- 305 Villas on the Beach
- Chattel Village
- BET Building

In our opinion, the total fair market value of the properties listed above is **\$61,100,000** as of 30 September, 2005.

Sincerely,

Andrew W. Mallalieu, CPA
Managing Director

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January 16, 2006

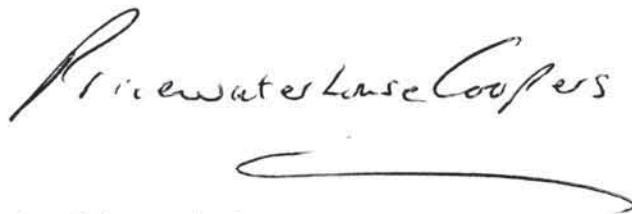
Auditors' Report

To the Shareholders of Fortress Caribbean Property Fund Limited

We have audited the accompanying consolidated balance sheet of **Fortress Caribbean Property Fund Limited** as of September 30, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

Antigua	Charles W. A. Walwyn	Robert J. Wilkinson							
Barbados	J. Andrew Marrayshow	Philip St. E. Atkinson	R. Michael Bynoe	Ashley R. Clarke	Gloria R. Eduardo	Wayne I. Fields			
	Maurice A. Franklin	Marcus A. Hatch	Stephen A. Jardine	Lindell E. Nurse	Brian D. Robinson	Christopher S. Sambrano	R. Charles D. Tibbits	Ann M. Wallace-Elcock	Michelle J. White-Ying
Grenada	Philip St. E. Atkinson (resident in Barbados)								
St. Lucia	Anthony D. Atkinson	Richard N. C. Peterkin							

General Information



Fortress Caribbean Property Fund Limited is a closed end investment company registered with limited liability in Barbados under the provisions of the Mutual Funds Act of Barbados.

The Fund's shares are listed on the Regular Market of the Barbados Stock Exchange. The address of the Fund's registered office is as follows:

1st Floor Carlisle House
Hincks Street
Bridgetown
Barbados

The principal activity of the Fund is investment holding with an objective to achieve long term returns through a diversified portfolio of real estate, shares in Caribbean listed companies or open ended funds, foreign listed shares or open ended funds, unlisted shares of Caribbean companies and government securities.

financials

precision and performance



Fortress Caribbean Property Fund Limited

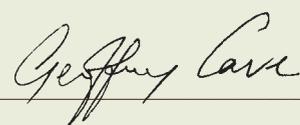
Consolidated Balance Sheet

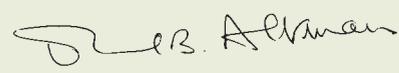
As of September 30, 2005

(Expressed in Barbados dollars)

	Notes	2005 \$	2004 \$
Assets			
Investment properties	4	69,334,193	58,218,044
Investment in available-for-sale securities	5	2,063,823	7,015,950
Accounts receivable and prepaid expenses		286,308	114,191
Cash and bank balances	7	1,856,289	1,006,187
Total assets		73,540,613	66,354,372
Liabilities			
Security deposits		158,520	157,890
Accounts payable and accrued expenses		571,215	535,743
Loans payable	6	18,525,000	14,750,000
Proposed dividend	14	1,841,965	1,674,513
Total liabilities		21,096,700	17,118,146
Total assets less liabilities		52,443,913	49,236,226
Capital and reserves			
Share capital	12	35,742,268	35,742,268
Retained earnings		7,061,823	4,694,800
Total shareholders' funds		42,804,091	40,437,068
Minority interest	11	9,639,822	8,799,158
		52,443,913	49,236,226
Net asset value per share	12	1.28	1.21

Approved by the Board of Directors on January 16, 2006


Director


Director



Fortress Caribbean Property Fund Limited Statement of Changes in Shareholders' Funds

As of September 30, 2005

(Expressed in Barbados dollars)

	Share capital \$	Retained earnings \$	Total \$
Balance as at September 30, 2003	34,813,532	3,681,145	38,494,677
Issue of shares	928,736	-	928,736
Proposed dividend (5¢ per share)	-	(1,674,513)	(1,674,513)
Net income for the year	-	2,688,168	2,688,168
Balance as at September 30, 2004	35,742,268	4,694,800	40,437,068
Proposed dividend (5.5¢ per share)	-	(1,841,965)	(1,841,965)
Net income for the year	-	4,208,988	4,208,988
Balance as at September 30, 2005	35,742,268	7,061,823	42,804,091

Fortress Caribbean Property Fund Limited

Statement of Income

As of September 30, 2005

(Expressed in Barbados dollars)

	Notes	2005 \$	2004 \$
Revenue			
Net rental income	8	5,052,207	4,831,700
Fair value gains	4	1,823,774	323,777
Net gain on available-for-sale securities	9	455,251	611,215
Other income		19,933	51,305
Dividend income		14,683	11,437
Interest income		1,618	-
		7,367,466	5,829,434
Expenses			
Interest expense		1,235,926	1,376,631
Fund management fees	10	311,085	301,188
Investment advisor fees	10	311,085	301,188
Audit, listing and other professional fees		141,712	126,117
Office and administrative expenses		48,006	46,585
Directors' fees		12,000	12,000
		2,059,814	2,163,709
Net income before minority interest		5,307,652	3,665,725
Minority interest		(1,098,664)	(977,557)
Net income for the year		4,208,988	2,688,168
Earnings per share - basic and diluted	12	0.13	0.08



Fortress Caribbean Property Fund Limited

Statement of Cash Flows

As of September 30, 2005

(Expressed in Barbados dollars)

	2005 \$	2004 \$
Cash flows from operating activities		
Net income before minority interest	5,307,652	3,665,725
Adjustment for:		
Interest income	(1,618)	-
Dividend income	(14,683)	(11,437)
Fair value gains	(1,823,774)	(323,777)
Net gain on available for sale securities	(455,251)	(611,215)
Operating profit before working capital changes	3,012,326	2,719,296
Net increase in accounts receivable and prepaid expenses	(172,117)	(35,453)
Net increase (decrease) in accounts payable and accrued expenses	35,472	(436,767)
Net increase in security deposits	630	21,084
Cash generated from operations	2,876,311	2,268,160
Interest received	1,618	-
Dividend received	14,683	11,437
Net cash generated from operating activities	2,892,612	2,279,597
Cash flows from investing activities		
Purchases/additions to investment properties	(9,742,375)	(1,739,267)
Proceeds from refund of investment property deposits	450,000	-
Purchase of available-for-sale securities	(350,000)	(31,823)
Proceeds on sale of available-for-sale securities	5,757,378	1,361,703
Net cash used in investing activities	(3,884,997)	(409,387)
Cash flows from financing activities		
Issue of shares	-	928,736
Decrease in advance subscriptions for shares	-	(757,736)
Distributions to minority investors	(258,000)	(219,300)
Dividends paid	(1,674,513)	(1,628,077)
Short term loans received	5,400,000	-
Repayment of loans	(1,625,000)	(1,350,000)
Net cash from (used in) financing activities	1,842,487	(3,026,377)
Net decrease in cash and cash equivalents	850,102	(1,156,167)
Cash and cash equivalents at beginning of year	1,006,187	2,162,354
Cash and cash equivalents at end of year	1,856,289	1,006,187

Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

I. INCORPORATION AND PRINCIPAL ACTIVITY

Fortress Caribbean Property Fund Limited (the Fund) was incorporated on May 7, 1999 and is registered under the Mutual Funds Act of Barbados as an authorised mutual fund. It commenced operations on August 20, 1999. The Fund maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The Fund's shares are listed on the Regular Market of the Barbados Stock Exchange.

The investment objective of the Fund is to achieve income and capital appreciation over the long term from a portfolio of real estate property and other securities in the Caribbean and internationally.

2. SIGNIFICANT ACCOUNTING POLICIES

International Financial Reporting Standards requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The principal accounting policies adopted in the preparation of these financial statements are set out below:

A. BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and under the historical cost convention modified by the fair valuation of available-for-sale securities and investment properties

B. FOREIGN CURRENCY TRANSLATION

Assets and liabilities expressed in foreign currencies are translated into Barbados dollars at rates of exchange prevailing at the balance sheet date. Transactions arising during the year involving foreign currencies are converted at the rates of exchange prevailing on the dates of the transactions. Differences arising from

fluctuations in exchange rates are included in the Statement of Income.

C. SUBSIDIARY UNDERTAKINGS AND ASSOCIATED UNDERTAKINGS

Subsidiary undertakings in which the Fund has an interest of more than one half the voting rights, or otherwise has power to exercise control over the operations, are consolidated.

Joint ventures undertakings in which the Fund has a shareholding of between 20% and 50% and has significant influence, but does not control, are proportionately consolidated.

Investments in companies in which the Fund exerts significant influence are recorded on an equity basis. For presentation in the financial statement, the investment in the associated company is recorded in Investment properties. This presentation more accurately reflects the substance of the investment.

All intercompany transactions, balances and unrealised gains on intercompany transactions are eliminated on consolidation (see Note 10).

D. REVENUE RECOGNITION

Interest income is recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective yield method. Interest income includes interest earned on cash deposits.

Rental income is recognised on an accrual basis in accordance with the relevant rental agreements. Rental income is shown net of the direct property expenses incurred in managing the properties and VAT.

Dividends are recognised when the Fund's right to receive payment has been established.

E. AVAILABLE-FOR-SALE SECURITIES

The Fund's investments have been classified as available-for-sale in accordance with

International Financial Reporting Standards 39 (IFRS 39), Financial Instruments: Recognition and Measurement.

All available-for-sale securities are initially recognised at cost and are subsequently carried at fair value based on quoted bid prices. In the absence of quoted bid prices, the quoted offer price is used. In the event that a security held by the fund is unquoted, if unusual market conditions exist, or in the event that a particular security's value has become impaired, as evidenced by no bids being quoted and offers below the previous trade price, the Manager, in consultation with the Custodian, and on advice of an independent broker, will make a reasonable estimate of the fair value price. Gains and losses are recognised in the Statement of Income.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

G. TAXATION

The Fund is authorised to carry on business under the Mutual Funds Act, 2002-22 of Barbados. In calculating the assessable income of the Fund for tax purposes, the Income Tax Act provides for a deduction of up to 100% of the income that is designated to the income of the Fund's shareholders. All of the profits of the Fund are designated to the Fund's Class "A" shareholders and consequently the Fund has no taxable income.

H. SHARE CAPITAL

The Fund's Class "A" and Class "B" common property fund shares with discretionary dividends are classified as equity. Proceeds from the issue of shares are recorded net of share issue costs.



Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

I. DIVIDENDS PAYABLE

Proposed dividends are accounted for when they are ratified and are recognised in equity in the period in which they are declared.

J. NET ASSET VALUE PER SHARE AND EARNINGS PER SHARE

The net asset value per share is calculated by dividing the net assets by the number of common property fund class "A" shares.

Earnings per share is calculated by dividing the net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share the weighted average number of shares is adjusted for the effects of all dilutive potential ordinary shares.

K. EXPENSES

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment, which are included within the cost of that investment. Expenses arising on the disposal of investments are deducted from disposal proceeds.

L. USE OF ACCOUNTING ESTIMATES

The financial statements are prepared in conformity with International Financial Reporting Standards. In certain cases, the Fund's management is required to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from estimates made by management.

M. INVESTMENT PROPERTIES

Investment properties are initially recorded at cost. Investment properties are treated as long-term investments and carried at market value determined semi-annually by independent

valuers, with the changes in fair value being recorded in the Statement of Income.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Income Statement.

N. MANAGEMENT FEES

Fortress Fund Managers Limited serves as manager and registrar of the Fund. As a result of providing investment advisory, management and registrar services, Fortress Fund Managers Limited receives a management fee based on the average net asset value of the Fund, calculated monthly and payable in arrears, at the rate of 0.75% per annum.

Alleyne, Aguilar & Altman Ltd. serves as investment advisor. As a result of providing investment advisory services, Alleyne, Aguilar & Altman Ltd receives a management fee based on the average net asset value of the fund, calculated monthly and payable in arrears, at the rate of 0.75% per annum.

O. ACCOUNTING FOR LEASES

Leases of assets by the Fund under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

Assets leased out by the Fund under operating leases are included in investment properties in the Balance Sheet. These properties are independently revalued every six months, except the CWBET Building which is independently revalued annually.

3. FINANCIAL RISK MANAGEMENT

The Fund invests in a diversified portfolio of real estate, equities, Funds and Government securities predominantly in the Caribbean with

an objective to achieve long-term returns.

The Fund is exposed to a number of risks arising from the various financial instruments it holds. The main risks to which the fund is exposed are credit risk and interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or counter party will be unable or unwilling to meet commitments it has entered into with the Fund.

Cash is placed with an international bank with a high credit rating. Short-term deposits are placed with a reputable public company.

As part of the lease agreements tenants provide a security deposit. The property manager also does an assessment of the business of the prospective client to determine its viability and hence its ability to meet the lease commitments.

Interest Rate Risk

Changes in interest rates may expose the Fund to interest rate risk. The effective interest rate and period to maturity of the fund's financial assets and liabilities are as disclosed in Note 6.

Fair value

Available-for-sale securities are shown at their market values as disclosed in Note 5. The carrying values of other financial assets and liabilities are a reasonable estimate of their fair value because of the short-term maturity of these instruments.

Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Fund's market price risk is managed through diversification of the investment portfolio.

Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

4. INVESTMENT PROPERTIES

The detailed portfolio of investment properties is as follows:

	Fair Value Bfwd. \$	Additions \$	Fair Value Gains \$	Fair Value Cfwd. \$
Properties at fair market value				
The CWBET Building	34,700,000	-	250,000	34,950,000
Carlisle House	9,500,000	982,176	367,824	10,850,000
No. 24 Broad Street	6,950,000	-	250,000	7,200,000
Holdings Hill House	2,200,000	-	200,000	2,400,000
The Chattel Village	1,620,000	-	(50,000)	1,570,000
Tobago Plantations Villa	800,000	-	-	800,000
Villas On The Beach-Unit 305	878,750	895,300	725,950	2,500,000
Lower Estate Land	750,000	-	80,000	830,000
	57,398,750	1,877,476	1,823,774	61,100,000
New acquisitions (at cost) and deposits				
Lime Grove Development	179,414	1,553,083	-	1,732,497
Alanridge Canmore Villa	189,880	140,130	-	330,010
Carter's Properties	-	5,308,452	-	5,308,452
Villas On The Green	-	550,734	-	550,734
Rockley Recreations	-	312,500	-	312,500
Other deposits on investment properties	450,000	(450,000)	-	-
	58,218,044	9,292,375	1,823,774	69,334,193

In September 2005 the investment properties, excluding deposits and new acquisitions, were appraised by an independent valuer at \$61,100,000 (2004 - \$56,520,000). The increase of this current valuation over the previous valuation amounting to \$1,823,774 (2004 - \$323,777) has been recorded as a fair value gain in the income statement.

The CWBET Building was acquired under a sale/leaseback arrangement where the present tenant and the previous owner, Cable & Wireless (Barbados) Limited has an option to repurchase the property at the end of the lease term of 15 years for a purchase price of no less than the fair value of the property at that date. There is a lien over the CWBET Building as disclosed in Note 6.



Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

5. AVAILABLE-FOR-SALE SECURITIES

The detailed portfolio of equity securities is as follows:

	No. of shares	2005		2004	
		Cost \$	Fair Value \$	Cost \$	Fair Value
Conglomerate					
The Barbados Shipping & Trading Co. Ltd	3,184	9,600	24,357	9,600	21,651
Goddard Enterprises Limited	212	639	1,992	639	1,356
Retail and Distribution					
Cave Shepherd & Co. Limited	64,000	104,325	396,800	104,325	201,600
West Indies Rum Distillery Limited	1,000	2,007	9,000	2,607	5,900
Utilities					
Light & Power Holdings Ltd	2,020	18,672	22,725	18,672	18,180
Telecommunications					
Cable & Wireless (Barbados) Limited	9,644	39,268	23,145	39,268	16,395
Tourism					
Almond Resorts Inc.	8,000	14,472	20,480	14,472	12,800
Mutual and Overseas Funds					
Fortress Caribbean High Interest Fund	1,141,600	1,203,010	1,404,968	5,658,433	6,535,370
OAM - Rest of Asia Fund	82,000	33,678	69,319	72,105	94,576
OAM - Other funds	11,000	19,457	91,047	49,810	108,800
	1,321,660	1,445,741	2,063,823	5,969,612	7,015,950

The unrealised gain on the portfolio of available-for-sale securities of \$331,109 (2004 - \$508,158) has been recorded in the Income Statement (see Note 9).

Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

6. LOANS PAYABLE

	2005	2004
	\$	\$
Fortress Mutual Fund Limited		
Short term loan	5,400,000	-
RBTT Merchant Bank Limited		
Current portion	1,925,000	1,700,000
Long-term portion	11,200,000	13,050,000
	18,525,000	14,750,000

The short term loan bears interest at a rate of 6% per annum and is repayable in three months.

The RBTT Merchant Bank loan is secured by a first mortgage over the CWBET Building at Wildey, St Michael and an assignment of the lease payments due to the BET Building Joint Venture from Cable and Wireless (Barbados) Limited.

Interest is payable quarterly in arrears at a rate of 8.85% per annum. The principal is repayable quarterly in installments over a term of ten years as follows:

	\$
2005	425,000
2006	500,000
Thereafter	535,000

7. CASH AND BANK BALANCES

	2005	2004
	\$	\$
Cash at bank	1,208,289	1,006,187
Term Deposit	648,000	-
Cash and bank balances	1,856,289	1,006,187

Cash at bank amounting to \$1,086,206 (2004 - \$976,169) is placed with one of the Class "A" shareholders. The term deposit is a three-month deposit held at Cave Shepherd & Co. Ltd and bears interest at 5% per annum.



Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

8. NET RENTAL INCOME

Rental income is shown net of \$820,032 (2004 - \$726,565) the direct property expenses incurred in managing the properties.

9. NET GAIN ON AVAILABLE-FOR-SALE SECURITIES

The net gain on available-for-sale securities is as follows:

	2005 \$	2004 \$
Realised gain on sale of securities	124,142	103,057
Unrealised gain on securities	331,109	508,158
Net gain on available-for-sale securities	455,251	611,215

10. RELATED PARTY TRANSACTIONS

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 or operational decisions.

During the year, fund management fees amounting to \$311,085 (2004 - \$301,188) were paid to Fortress Fund Managers Limited and investment advisor fees amounting to \$311,085 (2004 - \$301,188) were paid to Alleyne, Aguilar & Altman Ltd. (see note 2N).

Included in other income is \$19,933 (2004 - \$51,305) paid by Fortress Fund Managers Ltd being 0.75% of the net asset values of the Fortress Caribbean High Interest Fund shares held by the Fund.

Included in interest expense is \$22,500 (2004 - nil) paid to Fortress Mutual Fund Limited in respect of a short term loan.

Included in net rental income is an amount of \$667,942 (2004 - \$633,797) earned from an affiliated company.

At year end \$39,585 (2004 - \$31,689) is due to Fortress Fund Managers Ltd and is included in payables. In addition \$1,015 (2004 - \$9,711) is due from Fortress Fund Managers Ltd and has been included in the receivables balance.

An amount of \$17,055 (2004 - \$7,189) is also due to Property Consultancy Services Inc at year end.

Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

11. MINORITY INTEREST

	2005	2004
	\$	\$
Minority interest in subsidiaries		
Balance, beginning of year	8,799,158	8,040,901
Net income of the year	1,098,664	977,557
Distributions	(258,000)	(219,300)
Balance, end of year	9,639,822	8,799,158

12. EARNINGS PER SHARE AND NET ASSET VALUE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the period.

Diluted earnings per share is calculated as follows:

	2005	2004
	\$	\$
Net profit attributable to shareholders	4,208,988	2,688,168
Weighted average number of ordinary shares in issue	33,490,261	33,490,261
Basic and diluted earnings per share	0.13	0.08

There are no 'unpurchased' shares to be added to the ordinary shares outstanding for the purpose of computing a diluted earning per share.

Net asset value per share

	2005	2004
	\$	\$
Net asset value	42,804,091	40,437,068
Net asset value per Class "A" shares	1.28	1.21



Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

13. SHARE CAPITAL

	No. of shares	2005 \$	No. of shares	2004 \$
(a) Class "B" shares				
Authorised				
A maximum of 10 Class "B" shares				
Issued				
Issued and outstanding	10	10	10	10
(b) Class "A" common property fund shares				
Authorised				
An unlimited number of Class "A" shares of no par value				
Issued				
Issued and outstanding	33,490,261	35,742,258	33,490,261	32,742,258
Total share capital	33,490,271	35,742,268	33,490,271	32,742,268

During the year no Class "A" shares were issued.

Class "B" shares

The Class "B" shares are held equally by the Investment Adviser and the Fund Manager and no Class "B" share can be transferred to any person other than another investment advisor or fund manager. The holder of Class "B" shares has broad voting rights. Each Class "B" share entitles the holder to one vote per share. The holders of Class "B" shares are not entitled to receive dividends.

Class "A" common property fund shares

The holders of Class "A" common property fund shares have an interest in the undivided portion of assets of the Fund. These shares secure an equal share in distribution of net income and net capital gains and participate equally in all other respects.

The holders of Class "A" common property fund shares are entitled to vote only in respect of:

- The liquidation of the fund;
- The winding up of the company;
- The reconstruction of the company;
- The amalgamation of the company with any other company or mutual fund.

Common property fund shares may not be redeemed by the Class "A" shareholders, but may be traded on the Junior Market of the Barbados Stock Exchange.

Class "A" share purchase warrants

On the initial issue, 3,540,000 warrants or 1 warrant for every 5 Class "A" shares was issued. Each warrant entitled the holder thereof to purchase one Class "A" share at a subscription price of \$1 per share on the exercise dates. The final exercise date for the warrant was October 1, 2003 or on the next business day following this date.

Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

14. PROPOSED DIVIDEND

The directors proposed dividends in respect of 2005 amounting to \$1,841,965 (2004 - \$1,674,513). These dividends were paid on October 31, 2005.

15. COMMITMENTS

Operating lease commitments - where the fund is the lessee

The future minimum lease payments under operating leases are as follows:

Not later than 1 year	-	\$68,484
Later than 1 year and not later than 5 years	-	\$273,934
Later than 5 years	-	\$410,901

Operating lease commitments - where the fund is the lessor

The future minimum lease payments receivable under operating leases are as follows:

Not later than 1 year	-	\$5,314,854
Later than 1 year and not later than 5 years	-	\$20,505,552
Later than 5 years	-	\$31,517,023

16. INVESTMENT IN SUBSIDIARIES

On October 12, 2001 the Fund invested a majority interest in a joint venture partnership. The partnership was registered in Barbados on October 12, 2001 as the BET Building Joint Venture and was formed to facilitate the purchase of the CWBET Building in Wildey, St. Michael. It is structured as follows:

	Investment	
	\$	%
Fortress Caribbean Property Fund Limited	5,700,000	57
National Insurance Fund	3,300,000	33
Sagicor Life Inc.	1,000,000	10
	10,000,000	100

The Fund also owns a 100% interest in JK Holdings Limited, a company incorporated in Barbados. This company owns the Holders property that has been included in the investment properties (see Note 4).



Fortress Caribbean Property Fund Limited

Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

17. ASSOCIATED UNDERTAKINGS

During the year the Fund acquired a 24% interest in a joint venture partnership called The CS&C Joint Venture. The partnership was formed to facilitate the purchase of land and buildings previously owned by Cave Shepherd and Co. Ltd. and Carter Holdings Limited.

At September 30, 2005 the partnership acquired the Carter's properties at Wildey, Barbarees Hill and High Street as well as 13.5 acres of undeveloped land at Lower Estate. These Carter's properties have been included in investment properties at cost (see Note 4).

Subsequent to the year end, The CS&C Joint Venture acquired the Cave Shepherd building at 10-14 Broad Street and secured a bond to finance its purchases.

During the year the Fund also acquired a 20% interest in Earnscliffe Limited, a company incorporated in the Cayman Islands, which is the ultimate parent of Sunto Limited, a Barbadian company which owns 435,000 square feet of land in the centre of Holetown, St. James, Barbados. The property known as "Lime Grove" is presently undeveloped. The Lime Grove property has been included in investment properties on an equity basis.

18. CAPITAL COMMITMENTS

The company has committed \$9.6m (2004 - \$2.9m) in respect of capital expenditure, contracted for at the balance sheet date but not yet incurred, for the purchase and renovation of its investment properties.

19. SUBSEQUENT EVENT

At a meeting of the Board of Directors of Fortress Caribbean Property Fund held on June 1st, 2005, it was resolved to issue and offer for sale, at a Rights Issue price of \$1.40 per share, two (2) new Class "A" shares for every three (3) Class "A" shares held at close of business on September 30, 2005 for the purpose of raising \$30.8 million, net of expenses. The offer was over-subscribed and the Fund issued 22,326,840 Class "A" Common Property Fund Shares on October 31, 2005.

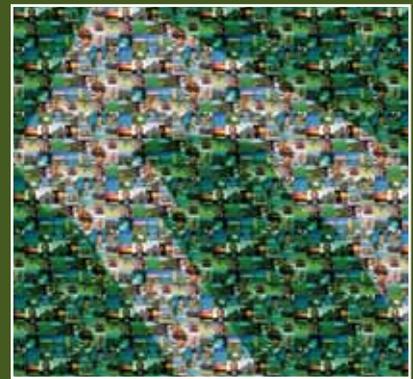
20. COMPARATIVE FIGURES

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

Notes







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