

Financial Statements and Related Announcement::Second Quarter and/ or Half Yearly Results

Issuer & Securities

| | |
|------------------------|---|
| Issuer/ Manager | ARA ASSET MANAGEMENT (FORTUNE) LIMITED |
| Securities | FORTUNE REAL ESTATE INV TRUST - SG1033912138 - F25U |

Announcement Details

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Fortune Real Estate Investment Trust

*(a Hong Kong collective investment scheme authorized under section 104
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 778)*

Managed by



ARA Asset Management (Fortune) Limited

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014 AND CLOSURE OF REGISTER OF UNITHOLDERS

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by a trust deed ("Trust Deed") entered into on 4 July 2003 (as amended) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the "Manager"), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the "Trustee"). Fortune REIT was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and The Stock Exchange of Hong Kong Limited ("SEHK") on 12 August 2003 and 20 April 2010 respectively.

Fortune REIT holds a portfolio of 17 retail properties in Hong Kong, comprising approximately 3.11 million square feet ("Sq.ft.") of retail space and 2,606 car parking lots. The retail properties are Fortune City One, Fortune Kingswood, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi Square, Nob Hill Square, Hampton Loft, Centre de Laguna, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of the Manager is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2014 (the "Reporting Period") as follows:

FINANCIAL HIGHLIGHTS

| | Six months ended 30 June 2014 | Six months ended 30 June 2013 | % change |
|--|----------------------------------|----------------------------------|----------|
| Revenue (HK\$ million) | 813.5 | 609.2 | +33.5% |
| Net property income (HK\$ million) | 581.0 | 437.6 | +32.8% |
| Cost-to-revenue ratio | 26.3% | 26.0% | +0.3% |
| Income available for distribution (HK\$ million) | 390.5 | 307.0 | +27.2% |
| Distribution per unit (HK cents) | 20.88 | 18.00 | +16.0% |
| | As at 30 Jun 2014 | As at 31 Dec 2013 | % change |
| Net asset value per unit (HK\$) | 11.01 | 10.26 | +7.3% |
| Property valuation (HK\$ million) | 30,880 | 29,338 | +5.3% |
| Gearing ratio / Aggregate leverage ¹ | 31.1% | 32.7% | -1.6% |

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 30 June 2014, there was no deferred payment.

DISTRIBUTION

Fortune REIT's distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (i) 100% of its tax exempt income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses; and (ii) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial year adjusted to eliminate the effects of certain adjustments in accordance with the Code on Real Estate Investment Trusts (the "REIT Code") published by the Securities and Futures Commission of Hong Kong ("SFC").

FINANCIAL REVIEW

Fortune REIT continued to grow during the first half of 2014, benefiting from the success of its three core growth strategies: active leasing management, yield-accretive acquisitions and asset enhancement initiatives ("AEIs").

For the six months ended 30 June 2014 (the "Reporting Period"), Fortune REIT's revenue and net property income rose by 33.5% and 32.8% year-on-year to historical highs of HK\$813.5 million and HK\$581.0 million respectively, maintaining last year's growth momentum. This exceptional financial performance was attributable to (i) the strong rental reversions across its enlarged portfolio; (ii) satisfactory returns from completed AEIs; as well as (iii) additional income contributions from Fortune Kingswood acquired in October 2013.

Borrowing costs, excluding non-tax deductible front end fees, for the Reporting Period totalled HK\$108.1 million, an increase of 62.2% over the first half of 2013, mainly as a result of the drawdown of additional loan facilities in October 2013 to finance the acquisition of Fortune Kingswood.

Income available for distribution for the Reporting Period amounted to HK\$390.5 million, a year-on-year increase of 27.2%. Distribution per unit (“DPU”) for the Reporting Period was 20.88 Hong Kong cents, 16.0% higher than the DPU of 18.00 Hong Kong cents for the corresponding period in 2013. This represents an annualised distribution yield of 6.2% based on the unit price of HK\$6.785, the average of the two closing unit prices in Singapore and Hong Kong as at 30 June 2014.

The interim distribution of 20.88 Hong Kong cents per unit will be paid on Friday, 29 August 2014 to unitholders registered in the registers of unitholders of Fortune REIT as at Monday, 11 August 2014.

The outstanding performance of Fortune REIT has gained widespread recognition from the investment community. Fortune REIT won seven champions in the Asia’s Best Companies 2014 Poll (Hong Kong) conducted by FinanceAsia - not only been named the “Best Managed Company,” but also honoured as the “Best Mid Cap” for the third consecutive year and the “Most Committed to a Strong Dividend Policy” for the second consecutive year, in addition to winning four other prestigious accolades in the Poll.

Capital Management

Fortune REIT’s financial position strengthened during the Reporting Period. Capitalising on an opportunity of liquidity in Hong Kong’s credit market, the Manager proactively refinanced Fortune REIT’s existing loan facilities of HK\$1,400 million at a lower cost ahead of their maturity in February 2015. The interest margin under the new facilities has been lowered to 1.4% per annum over HIBOR (down from 2% per annum over HIBOR). The new facilities, which is due in April 2019, will also extend Fortune REIT’s weighted average term to maturity of debt. Further, the enlarged revolving credit facility of HK\$700 million provides Fortune REIT with a strong foundation to deliver stable returns and pursue growth opportunities when they arise.

As at 30 June 2014, the total committed loan facilities amounted to HK\$10,623.0 million. Fortune REIT closed the Reporting Period with a gearing ratio and an aggregate leverage of 31.1% (31 December 2013: 32.7%), a term of 2.8 years of weighted average term to maturity of debt, and an average all-in cost of debt of 2.20% (31 December 2013: 2.59%). Fortune REIT’s gross liabilities as a percentage of gross assets decreased to 35.5% as at 30 June 2014 (31 December 2013: 37.0%). The net current liabilities as at 30 June 2014 were HK\$1,074.9 million. There is an option to roll over the revolving credit facilities up until maturity.

The facilities are secured over Fortune REIT’s 15 investment properties, which carried an aggregate fair value of HK\$28,578 million as at 30 June 2014. The Trustee has provided a guarantee for the facilities.

During the Reporting Period, the Manager has stepped up its effort to mitigate the impact of interest rate fluctuations. As at 30 June 2014, the interest cost for approximately 55% (31 December 2013: 37%) of Fortune REIT’s outstanding debt has been hedged through interest rate swaps and caps. The Manager will continue to closely monitor interest rate movements and may, depending on market conditions, consider putting in place additional hedging arrangements.

Net asset value per unit amounted to HK\$11.01 as at 30 June 2014, up 7.3% from HK\$10.26 reported as at the end of 2013, mainly as a result of the increase in the valuation of investment properties.

Portfolio Valuation

The valuation of Fortune REIT's 17 retail properties was appraised at HK\$30,880 million by Jones Lang LaSalle Limited ("Jones Lang LaSalle"), an independent valuer, as at 30 June 2014. This represents a 5.3% increase from the valuation of HK\$29,338 million as at 31 December 2013. With the capitalization rates adopted unchanged, the increase in valuation can be attributed to an overall improvement in asset performance. The higher valuation has resulted in a revaluation gain of HK\$1,512.7 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2014, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.11 million Sq.ft. of retail space and 2,606 car parking lots.

| Property | Gross Rentable Area ("GRA") (Sq. ft.) | Valuation (HK\$ million) | Occupancy | No. of car parking lots |
|--------------------------------|---------------------------------------|--------------------------|--------------|-------------------------|
| Fortune City One | 414,469 | 6,648 | 99.6% | 653 |
| Fortune Kingswood | 665,244 | 6,292 | 98.0% | 622 |
| Ma On Shan Plaza | 310,084 | 4,629 | 99.9% | 290 |
| Metro Town | 180,822 | 2,869 | 98.7% | 74 |
| Fortune Metropolis | 332,168 | 2,180 | 98.8% | 179 |
| Belvedere Square | 276,862 | 1,778 | 99.6% | 329 |
| Waldorf Avenue | 80,842 | 1,522 | 100.0% | 73 |
| Caribbean Square | 63,018 | 900 | 100.0% | 117 |
| Provident Square | 180,238 | 892 | 100.0% | N.A |
| Jubilee Square | 170,616 | 780 | 96.5% | 97 |
| Smartland | 123,544 | 624 | 99.6% | 67 |
| Tsing Yi Square | 78,836 | 547 | 100.0% | 27 |
| Nob Hill Square | 91,779 | 423 | 100.0% | 43 |
| Hampton Loft | 74,734 | 257 | 100.0% | 35 |
| Centre de Laguna | 43,000 | 252 | 100.0% | N.A |
| Lido Avenue | 9,836 | 174 | 100.0% | N.A |
| Rhine Avenue | 14,604 | 113 | 100.0% | N.A |
| Total / Overall average | 3,110,696 | 30,880 | 99.1% | 2,606 |

OPERATIONS REVIEW

Fortune REIT's private housing estate retail portfolio has again demonstrated its resilience by delivering a solid performance amidst a softening of overall retail sales in Hong Kong. Active leasing management and the completed AElS continued to drive the revenue growth of the portfolio. Portfolio occupancy remained strong at 99.1% as at 30 June 2014 (30 June 2013: 97.8%).

A solid rental reversion of 21.2% was recorded for renewals during the Reporting Period, driven by the strong rental growth at Fortune Kingswood. Consequently, portfolio passing rent stood at HK\$34.2 per Sq.ft. Excluding Fortune Kingswood, passing rent for the original portfolio has increased by 7.3% year-on-year.

Operating expenses (excluding the Manager's performance fee) stood at HK\$214.3 million, 35.6% higher than the corresponding period last year, mainly attributed to the additional expenses from Fortune Kingswood. Meanwhile, the cost-to-revenue ratio was 26.3% (first half 2013: 26.0%).

ASSET ENHANCEMENT INITIATIVES

Fortune REIT continued its success in executing and delivering good returns from its AElS. The two AElS at Ma On Shan Plaza and Fortune City One Market were successfully completed in the fourth quarter last year with return on investment ("ROI") of 60% and 27% respectively. The two AElS began to fully contribute during the Reporting Period.

Looking ahead, the AElS at Belvedere Square are on track to commence in the second half of 2014 and are scheduled for completion by the end of 2015. Phase 3 of Belvedere Square, involving a GRA of approximately 133,750 Sq.ft., will be fully upgraded to offer an enhanced shopping ambience. Capital expenditure for the project is approximately HK\$80 million with a target ROI of 15%.

OUTLOOK

Hong Kong's economic growth moderated in the first quarter of 2014. Gross domestic product grew 2.5% from a year earlier, a slower rate than that of 2.9% in the fourth quarter of 2013. Supported by a full-employment labour market, private consumption expenditure increased by 2.0% year-on-year in the first quarter of 2014. For the first five months of 2014, total retail sales in Hong Kong decreased by 0.2% in value over the same period a year earlier, caused by a plunge in the sales of major big-ticket items. Nevertheless, retail sales related to local consumption, such as supermarkets, food and beverage, actually held firm, reflecting the still positive local consumer sentiment amid full employment. As more than 60% of Fortune REIT's tenants cater to the non-discretionary and necessity type of spending, Fortune REIT's portfolio of 17 private housing estate retail properties should continue to benefit from the healthy local consumption environment.

As there could be continuing pressure going forward on certain costs items such as rising statutory minimum wages and electricity tariffs, as well as inflation and other external factors, the Manager will continue to closely monitor operating expenses. As part of Fortune REIT's green policy, energy-saving measures will continue to be adopted to alleviate the impact of higher electricity tariffs.

The Manager will maintain its commitment to drive revenue growth by implementing AEs, as well as effective leasing and tenant repositioning strategies. Looking ahead, the full-year contribution from Fortune Kingswood, as well as the completed AEs at Ma On Shan Plaza and Fortune City One Market are expected to contribute to the further revenue growth of Fortune REIT.

EMPLOYEES

Fortune REIT is managed by the Manager and does not employ any staff itself.

NEW UNITS ISSUED

As at 30 June 2014, the total number of issued units of Fortune REIT was 1,866,273,811. As compared with the position as at 31 December 2013, a total of 7,382,687 new units were issued during the Reporting Period in the following manner:

- On 3 January 2014, 3,642,690 new units were issued to the Manager at the price of HK\$6.0901 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$22.2 million payable by Fortune REIT for the period from 1 October 2013 to 31 December 2013.
- On 4 April 2014, 3,739,997 new units were issued to the Manager at the price of HK\$5.8027 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$21.7 million payable by Fortune REIT for the period from 1 January 2014 to 31 March 2014.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 12,368,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Fortune REIT in a transparent manner and with built-in checks and balances. The Manager has adopted a compliance manual ("Compliance Manual") which sets out the key processes, systems, measures, and certain corporate governance policies and procedures applicable for governing the management and operation of Fortune REIT and for compliance with the applicable Hong Kong regulations and legislation. As Fortune REIT is a real estate investment trust with dual primary listing of its units in Singapore and Hong Kong, Fortune REIT and/or the Manager are subject to the laws, rules and regulations in Singapore and Hong Kong applicable to Fortune REIT and/or the Manager, corporate governance practices and policies referred to in the Singapore Code of Corporate Governance 2012 ("Singapore Code"), contained in the listing manual of the SGX-ST and the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK, where applicable. The Manager confirmed that it has in material terms complied with the provisions of the Compliance Manual and has adhered to the principles and guidelines set out in the Singapore Code and the CG Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Period.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of unitholders will be closed on Monday, 11 August 2014, during which day no transfer of units on the Hong Kong register of unitholders will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Fortune REIT's Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 8 August 2014. The payment of interim distribution will be made to unitholders on Friday, 29 August 2014.

REVIEW OF INTERIM RESULTS

The unaudited interim results of Fortune REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager. The unaudited interim results have also been reviewed by Fortune REIT's auditors in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2014.

ISSUANCE OF 2014 INTERIM REPORT

The 2014 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 2014.

By order of the board of directors of
ARA Asset Management (Fortune) Limited
(in its capacity as manager of Fortune Real Estate Investment Trust)
ANG Meng Huat, Anthony
Executive Director and Chief Executive Officer

Hong Kong, 25 July 2014

The Directors of the Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Mr. Ip Tak Chuen, Edmond and Ms. Yeung, Eirene as Non-executive Directors; Mr. Ang Meng Huat, Anthony and Ms. Chiu Yu, Justina as Executive Directors; Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David as Independent Non-executive Directors; and Mr. Ma Lai Chee, Gerald as Alternate Director to Mr. Ip Tak Chuen, Edmond.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

| | Notes | Six months ended 30 June 2014 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) |
|--|-------|---|-------------------------------|
| Revenue | 5 | 813,455 | 609,220 |
| Property operating expenses | | <u>(232,406)</u> | <u>(171,640)</u> |
| Net property income | | 581,049 | 437,580 |
| Manager's base fee | | (44,799) | (31,543) |
| Foreign currency exchange gain/(loss) | | 46 | (139) |
| Interest income | | 5,160 | 1,230 |
| Trust expenses | 6 | (7,280) | (5,397) |
| Change in fair value of investment properties | | 1,512,690 | 1,957,965 |
| Change in fair value of derivative financial instruments | | (21,200) | 107,216 |
| Gain on disposal of investment properties | | - | 897 |
| Borrowing costs | 7 | <u>(133,550)</u> | <u>(76,390)</u> |
| Profit before taxation and transactions with unitholders | 8 | 1,892,116 | 2,391,419 |
| Income tax expense | 9 | <u>(85,626)</u> | <u>(63,402)</u> |
| Profit for the period, before transactions with unitholders | | 1,806,490 | 2,328,017 |
| Distributions to unitholders | | <u>(390,454)</u> | <u>(306,965)</u> |
| Profit for the period, after transactions with unitholders | | 1,416,036 | 2,021,052 |
| Other comprehensive income - item that may be reclassified subsequently to profit or loss | | | |
| Net gain on derivative financial instruments under cash flow hedge | | <u>9,499</u> | <u>28,183</u> |
| Total comprehensive income for the period | | <u>1,425,535</u> | <u>2,049,235</u> |
| Income available for distribution to unitholders | | <u>390,454</u> | <u>306,965</u> |
| Basic earnings per unit (HK cents) | 10 | <u>96.77</u> | <u>136.71</u> |

Distribution Statement

For the six months ended 30 June 2014

| | | Six months ended 30 June | |
|--|-------|--------------------------|-----------------------|
| | | 2014 | 2013 |
| | Notes | HK\$'000 (Unaudited) | HK\$'000 (Audited) |
| Profit for the period, before transactions with unitholders | | 1,806,490 | 2,328,017 |
| Adjustments: | | | |
| Manager's base fee | | 44,799 | 31,543 |
| Change in fair value of investment properties | | (1,512,690) | (1,957,965) |
| Change in fair value of derivative financial instruments | | 21,200 | (107,216) |
| Gain on disposal of investment properties | | - | (897) |
| Non tax deductible front end fees | | 25,494 | 9,780 |
| Foreign currency exchange (gain)/ loss | | (46) | 139 |
| Other non-tax deductible trust expenses | | 5,207 | 3,564 |
| Income available for distribution | (i) | 390,454 | 306,965 |
| Distribution per unit (HK cents) | (ii) | 20.88 | 18.00 |

Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the REIT Code issued by the SFC.
- (ii) The distribution per unit of 20.88 HK cents for the six months ended 30 June 2014 (six months ended 30 June 2013: 18.00 HK cents) is calculated based on the income available for distribution for the period of HK\$390.5 million (six months ended 30 June 2013: HK\$307.0 million) over 1,869,688,995 units (30 June 2013: 1,704,730,532 units), representing issued units as at 30 June 2014 of 1,866,273,811 units (30 June 2013: 1,702,420,481 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2014 of 3,415,184 units (second quarter of 2013: 2,310,051 units).

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

| | Notes | 30 June 2014 HK\$'000 (Unaudited) | 31 December 2013 HK\$'000 (Audited) |
|--|-------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Investment properties | 11 | 30,880,000 | 29,338,000 |
| Derivative financial instruments | | 43,992 | 66,906 |
| Total non-current assets | | 30,923,992 | 29,404,906 |
| Current assets | | | |
| Trade and other receivables | 12 | 60,920 | 67,093 |
| Bank balances and cash | | 941,014 | 858,175 |
| Total current assets | | 1,001,934 | 925,268 |
| Total assets | | 31,925,926 | 30,330,174 |
| Non-current liabilities | | | |
| Derivative financial instruments | | 41,468 | 40,799 |
| Borrowings | 13 | 8,866,121 | 8,860,372 |
| Deferred tax liabilities | | 361,806 | 346,377 |
| Total non-current liabilities | | 9,269,395 | 9,247,548 |
| Current liabilities | | | |
| Trade and other payables | 14 | 562,728 | 540,665 |
| Borrowings | 13 | 970,000 | 970,000 |
| Derivative financial instruments | | 9,486 | 21,368 |
| Distribution payable | | 390,454 | 335,424 |
| Provision for taxation | | 144,202 | 105,842 |
| Total current liabilities | | 2,076,870 | 1,973,299 |
| Total liabilities, excluding net assets attributable to unitholders | | 11,346,265 | 11,220,847 |
| Net assets attributable to unitholders | | 20,579,661 | 19,109,327 |
| Units in issue and to be issued ('000) | 15 | 1,869,689 | 1,862,534 |
| Net asset value per unit (HK\$) attributable to unitholders | 16 | 11.01 | 10.26 |

Notes

(1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended) between ARA Asset Management (Fortune) Limited, as the Manager of Fortune REIT, and HSBC Institutional Trust Services (Singapore) Limited, as the Trustee of Fortune REIT. Fortune REIT was listed on SGX-ST and SEHK on 12 August 2003 and 20 April 2010, respectively.

The principal activity of Fortune REIT is investment holding whereas its subsidiaries (together with Fortune REIT referred to as the "Group") is to own and invest in a portfolio of retail shopping malls located in Hong Kong with the primary objective of producing stable distributions for unitholders and to achieve long term growth in the net asset value per unit.

(2) Basis of preparation

The condensed consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Fortune REIT.

The condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards Board (the "IFRS") issued by the International Accounting Standards Board (the "IASB"), and are drawn up in accordance with the relevant provisions of the Trust Deed, the relevant requirements of the Code on Collective Investments Schemes issued by the Monetary Authority of Singapore and REIT Code issued by SFC.

The Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

(3) Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in these condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013 except as described below.

In the current period, the Group has applied the following amendments and interpretations to the IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2014:

| | |
|--|--|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC 21 | Levies |

The application of the amendments and interpretations to the IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

| | |
|---------------------------------|---|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations ⁴ |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation ⁴ |
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions ¹ |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures ² |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010-2012 Cycle ³ |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011-2013 Cycle ¹ |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants ⁴ |
| IFRS 9 | Financial Instruments ² |
| IFRS 15 | Revenue from Contracts with Customers ⁵ |

¹ Effective for annual periods beginning on or after 1 July 2014

² Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

³ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁴ Effective for annual periods beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after 1 January 2017

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Managers anticipate that the adoption of IFRS 9 in the future may not have significant impact on amounted reported in respect of the financial assets and financial liabilities.

(4) Segmental reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which is the management of the Manager, in order to allocate resources to segments and to assess their performance.

The Group owns 17 (31 December 2013: 17) properties as at 30 June 2014 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

| | <i>Six months ended 30 June</i> | |
|------------------------|---------------------------------|------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Base rental | 584,874 | 440,756 |
| Charge-out collections | 148,602 | 114,641 |
| Other rental | 78,927 | 51,431 |
| Other income | 1,052 | 2,392 |
| | <hr/> | <hr/> |
| | 813,455 | 609,220 |
| | <hr/> <hr/> | <hr/> <hr/> |

(6) Trust Expenses

| | <i>Six months ended 30 June</i> | |
|---------------|---------------------------------|------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Trustee's fee | 5,136 | 3,564 |
| Other charges | 2,144 | 1,833 |
| | <hr/> | <hr/> |
| | 7,280 | 5,397 |
| | <hr/> <hr/> | <hr/> <hr/> |

(7) Borrowing costs

| | <i>Six months ended 30 June</i> | |
|--|---------------------------------|------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Interest expense on | | |
| - term loans | 70,489 | 30,672 |
| - revolving loan | 5,396 | 5,480 |
| Equalisation of interest expense through cash flow hedge | 30,413 | 29,605 |
| Commitment fee | 803 | 853 |
| Front end fees | | |
| - amortisation | 16,673 | 9,780 |
| - written off upon early repayment of term loans | 9,776 | - |
| | <hr/> | <hr/> |
| | 133,550 | 76,390 |
| | <hr/> <hr/> | <hr/> <hr/> |

(8) Profit before taxation and transactions with unitholders

Profit before taxation and transactions with unitholders is arrived at after charging:

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Fees to external auditor | 1,352 | 1,500 |
| Fees to internal auditor | 165 | 165 |
| Valuation fees (paid to principal valuer) | 308 | 215 |
| | <hr/> | <hr/> |

(9) Income tax expense

| | <i>Six months ended 30 June</i> | |
|--------------------|---------------------------------|------------------|
| | <i>2014</i> | <i>2013</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Current tax: | | |
| - Hong Kong | 69,881 | 51,647 |
| - Singapore | 316 | 154 |
| | <hr/> | <hr/> |
| | 70,197 | 51,801 |
| Deferred taxation: | | |
| | <hr/> | <hr/> |
| | 15,429 | 11,601 |
| | <hr/> | <hr/> |
| | 85,626 | 63,402 |

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2013: 16.5%) for the period. Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (six months ended 30 June 2013: 17%) for the period.

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation and tax losses using the applicable rate of 16.5%. The investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$1,806.5 million (six months ended 30 June 2013: HK\$2,328.0 million) by the weighted average of 1,866,799,364 (six months ended 30 June 2013: 1,702,831,381) units outstanding during the period.

No diluted earnings per unit is presented as there are no potential units in issue during the financial period nor outstanding at the end of the financial period.

(11) Investment properties

| | <i>30 June 2014 HK\$'000 (Unaudited)</i> | <i>31 December 2013 HK\$'000 (Audited)</i> |
|---|--|--|
| Fair value | | |
| At beginning of the period/year | 29,338,000 | 20,208,000 |
| During the period/year: | | |
| Acquisition of investment properties | - | 5,976,388 |
| Capital expenditure incurred in upgrading investment properties | 29,310 | 66,037 |
| Disposal of investment properties | - | (1,150) |
| Change in fair value of investment properties | 1,512,690 | 3,088,725 |
| | <hr/> | <hr/> |
| At end of the period/year | <u>30,880,000</u> | <u>29,338,000</u> |

(12) Trade and other receivables

| | <i>30 June 2014 HK\$'000 (Unaudited)</i> | <i>31 December 2013 HK\$'000 (Audited)</i> |
|-----------------------------------|--|--|
| Trade receivables | 33,624 | 35,170 |
| Other receivables and prepayments | | |
| Security deposits | 23,669 | 23,154 |
| Other receivables | 2,734 | 7,028 |
| Prepayments | 893 | 1,741 |
| | <hr/> | <hr/> |
| | 27,296 | 31,923 |
| | <hr/> | <hr/> |
| | 60,920 | 67,093 |
| | <hr/> | <hr/> |

Aging analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

| | <i>30 June 2014 HK\$'000 (Unaudited)</i> | <i>31 December 2013 HK\$'000 (Audited)</i> |
|--------------|--|--|
| 0 - 30 days | 33,507 | 35,130 |
| 31 - 90 days | 112 | 10 |
| Over 90 days | 5 | 30 |
| | <hr/> | <hr/> |
| | 33,624 | 35,170 |
| | <hr/> | <hr/> |

(13) Borrowings

| | <i>30 June 2014 HK\$'000 (Unaudited)</i> | <i>31 December 2013 HK\$'000 (Audited)</i> |
|--|--|--|
| Secured term loans | 7,334,253 | 7,334,253 |
| Unsecured term loans | 1,618,700 | 1,618,700 |
| Secured revolving loans | 970,000 | 970,000 |
| Less: unamortised front end fees | (86,832) | (92,581) |
| | <u>9,836,121</u> | <u>9,830,372</u> |
| Carrying amount repayable: | | |
| On demand or within one year | 970,000 | 970,000 |
| More than one year, but not more than two years | 2,813,085 | 1,087,424 |
| More than two years, but not more than five years | 6,053,036 | 7,772,948 |
| | <u>9,836,121</u> | <u>9,830,372</u> |
| Less: Amount due within one year shown under current liabilities | (970,000) | (970,000) |
| | <u>8,866,121</u> | <u>8,860,372</u> |

(14) Trade and other payables

| | <i>30 June 2014 HK\$'000 (Unaudited)</i> | <i>31 December 2013 HK\$'000 (Audited)</i> |
|----------------------------|--|--|
| Trade payables | | |
| Tenants' deposits | | |
| - Outside parties | 394,476 | 383,324 |
| - Related parties | 12,582 | 11,096 |
| Rental received in advance | | |
| - Outside parties | 19,899 | 17,101 |
| | <u>426,957</u> | <u>411,521</u> |
| Other payables | | |
| Trustee's fee | 1,760 | 2,512 |
| Other expenses | | |
| - Outside parties | 59,291 | 50,612 |
| - Related parties | 61,178 | 58,789 |
| - Manager | 6,042 | 5,782 |
| Interest payable | 5,243 | 6,494 |
| Others | 2,257 | 4,955 |
| | <u>135,771</u> | <u>129,144</u> |
| | <u>562,728</u> | <u>540,665</u> |

Trade and other payables comprise deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 30 days upon the termination of the tenancy agreement.

The tenants' deposits to be settled after twelve months from the reporting period based on lease term amounted to HK\$243.0 million (31 December 2013: HK\$239.7 million) as at 30 June 2014.

(15) Units in issue and to be issued

| | <i>Number of units '000</i> | <i>HK\$'000</i> |
|---|---------------------------------|------------------------|
| Balance as at 1 January 2013 | 1,700,225 | 6,468,360 |
| Issue of new units during the year: | | |
| Unit placement | 142,962 | 975,001 |
| As payment of acquisition fee for the acquisition of Fortune Kingswood | 8,576 | 58,490 |
| As payment of Manager's base fee for the period from 1 January to 30 September 2013 | 7,128 | 48,321 |
| | <hr/> | <hr/> |
| Balance in issue as at 31 December 2013 | 1,858,891 | 7,550,172 |
| New units to be issued: | | |
| As payment of Manager's base fee for the period from 1 October to 31 December 2013 | 3,643 | 22,184 |
| | <hr/> | <hr/> |
| Balance as at 1 January 2014 | 1,862,534 | 7,572,356 |
| Issue of new units during the period: | | |
| As payment of Manager's base fee for the period from 1 January to 31 March 2014 | 3,740 | 21,702 |
| | <hr/> | <hr/> |
| Balance in issue as at 30 June 2014 | 1,866,274 | 7,594,058 |
| New units to be issued: | | |
| As payment of Manager's base fee for the period from 1 April to 30 June 2014 | 3,415 | 23,097 |
| | <hr/> | <hr/> |
| Balance as at 30 June 2014 | <hr/> <u>1,869,689</u> | <hr/> <u>7,617,155</u> |

(16) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$20,579.7 million (31 December 2013: HK\$19,109.3 million) and the total number of 1,869,688,995 (31 December 2013: 1,862,533,814) units in issue or to be issued, including the new units to be issued as payment of Manager's base fee.

(17) Net current liabilities and total assets less current liabilities

As at 30 June 2014, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,074.9 million (31 December 2013: HK\$1,048.0 million).

As at 30 June 2014, the Group's total assets less current liabilities amounted to HK\$29,849.1 million (31 December 2013: HK\$28,356.9 million).