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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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 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 16 retail properties in Hong Kong, comprising approximately 2.45 million square feet ("Sq.ft.") of retail space and 1,989 car parking lots. The retail properties are Fortune City One, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Waldorf Avenue, Provident Square, Caribbean Square, Jubilee Square, Smartland, Tsing Yi Square, Nob Hill Square, Centre de Laguna, Hampton Loft, 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 (the “Board”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2012 (the “Reporting Year” or “FY2012”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Revenue (HK\$ million)	1,113.7	909.4	+22.5%
Net property income (HK\$ million)	788.3	642.1	+22.8%
Cost-to-revenue ratio	27.0%	27.2%	-0.2%
Income available for distribution (HK\$ million)	549.5	442.3	+24.2%
Distribution per unit (“DPU”) (HK cents)	32.35	26.30	+23.0%
	As at 31 Dec 2012	As at 31 Dec 2011	% change
Net asset value per unit (HK\$)	8.81	7.85	+12.2%
Property valuation (HK\$ million)	20,208	16,388	+23.3%
Gearing ratio / Aggregate leverage ¹	23.4%	18.8%	+4.6%

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 31 December 2012, 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’s FY2012 total revenue and net property income increased by 22.5% and 22.8% year-on-year to HK\$1,113.7 million and HK\$788.3 million respectively. This outstanding performance was attributable to the successful execution of our three core strategies. During the Reporting Year, strong rental growth across the entire portfolio, coupled with remarkable return derived from the asset enhancement initiatives (“AEIs”) in Fortune City One (“FCO”) and Ma On Shan Plaza (“MOSP”) contributed to 10.4% of the net property income growth. The additional income stream from Belvedere Square and Provident Square accounted for the remaining 12.4% of the net property income growth. Despite the continued inflationary pressure, an increase in electricity tariff and the impact of Hong Kong’s minimum wage legislation, Fortune REIT’s cost-to-revenue ratio dropped slightly to 27.0% (2011: 27.2%).

Fortune REIT's income available for distribution increased 24.2% year-on-year to HK\$549.5 million for FY2012. The DPU for the Reporting Year was 32.35 HK cents (2011: 26.30 HK cents), comprising an interim DPU of 15.82 HK cents and a final DPU of 16.53 HK cents. This higher DPU is attributable to better asset performance, prudent capital and cost management, and an accretive acquisition. Based on HK\$6.38, the average closing unit price in Singapore and Hong Kong as at 31 December 2012, the DPU of FY2012 represents a yield of 5.1%.

Immediate Accretive Acquisitions

On 17 February 2012, Fortune REIT successfully completed the acquisitions of two retail properties in Hong Kong, Belvedere Square and Provident Square for a total consideration of approximately HK\$1,900 million. Fully funded by debt, these acquisitions efficiently utilized Fortune REIT's debt headroom, optimizing the financing cost of the acquisitions and providing immediately yield-accretive returns to the unitholders.

Capital Management Initiatives

Fortune REIT's total committed loan facilities amounted to HK\$5,200 million as at 31 December 2012. These comprised the existing loan facilities of HK\$3,800 million (the "2011 Facilities") and a new three-year loan facility of HK\$1,400 million (the "2012 Facilities"), which was entered into in February 2012. During the Reporting Year, HK\$840 million and HK\$1,100 million were drawn from the 2011 Facilities and 2012 Facilities respectively to fully finance the acquisition costs of the two new properties. As a result, the gearing ratio and aggregate leverage of Fortune REIT rose to 23.4% as at 31 December 2012. (31 December 2011: 18.8%). The gross liability as a percentage of gross assets of Fortune REIT rose to 28.1% as at 31 December 2012 (31 December 2011: 23.6%). The net current liabilities as at 31 December 2012 was HK\$1,013.2 million, mainly as a result of a drawdown of the revolving credit facility of the 2011 Facilities to part finance the acquisitions. There is an option to rollover the said revolving credit facility up until maturity.

Overall, the weighted average debt maturity of the 2011 Facilities and 2012 Facilities was 3 years and the debt expiry periods have been further spread out. The two facilities are secured over Fortune REIT's 13 investment properties, which carried an aggregate fair value of HK\$16,009 million as at 31 December 2012. The Trustee has provided guarantees for both facilities.

Available liquidity stood at HK\$908 million as at 31 December 2012, comprising committed undrawn facilities of HK\$330 million and cash on hand of HK\$578 million. Fortune REIT possesses sufficient financial resources to satisfy its financial commitments and working capital requirements.

The Manager continued to take a prudent approach in managing the risk which may arise due to fluctuation of interest cost. As at 31 December 2012, the interest cost for approximately 75% of Fortune REIT's debt exposure has been hedged to fixed rates through various plain vanilla interest rate swaps. After taking into account the interest rate hedging arrangement and the interest savings from the 2011 Facilities, Fortune REIT's weighted average effective cost of borrowing has been brought down by 87 basis points to 2.78% for the Reporting Year (2011: 3.65%). The Manager will continue to monitor the interest rate movement closely and may, depending on market conditions, consider putting in place additional interest rate swaps.

Net asset value per unit amounted to HK\$8.81 as at 31 December 2012, up 12.2% from HK\$7.85 reported as at the end of 2011, mainly as a result of the increase in valuation of investment properties.

Robust Unit Performance

Supported by the yield accretive acquisitions and the strong asset performance across the portfolio, Fortune REIT's unit price surged by 69.0% during the Reporting Year to close at HK\$6.38. More importantly, Fortune REIT's market capitalization also reached a significant milestone of US\$1 billion in June 2012 and climbed further to cross the HK\$10 billion threshold in September 2012. This exceptional unit price rally has enabled Fortune REIT to outperform all other major regional indexes and sector peers, rewarding unitholders with a total return of 77.6% for the Reporting Year. Daily trading turnover has improved more than 2.4 times from 2011 to approximately HK\$19 million, reflecting an increased investor interest.

Portfolio Valuation

As at 31 December 2012, Fortune REIT's portfolio of 16 retail properties was appraised at HK\$20,208 million by Knight Frank Petty Limited. This represents an increase of 23.3% and 4.9% respectively from the valuation of HK\$16,388 million as at 31 December 2011, and HK\$19,268 million as at 30 June 2012. While the capitalization rate adopted remains unchanged, the increase in valuation was attributed to an overall improvement in asset performance and the addition of two new properties. The higher valuation also resulted in a revaluation gain of HK\$1,796.3 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 2012, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 2.45 million Sq.ft. of retail space and 1,989 car parking lots.

Property	Gross Rentable Area (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	5,365	95.1%	658
Ma On Shan Plaza	310,084	3,801	99.8%	290
Metro Town	180,822	2,380	100.0%	74
Fortune Metropolis	332,168	1,839	98.5%	179
Belvedere Square	276,862	1,431	99.4%	329
Waldorf Avenue	80,842	1,268	100.0%	73
Provident Square	180,238	786	99.8%	N.A
Caribbean Square	63,018	716	100.0%	117
Jubilee Square	170,616	551	83.2%	97
Smartland	123,544	516	99.5%	67
Tsing Yi Square	78,836	463	100.0%	27
Nob Hill Square	91,779	381	100.0%	43
Centre de Laguna	43,000	229	100.0%	N.A
Hampton Loft	74,734	222	100.0%	35
Lido Avenue	9,836	153	100.0%	N.A
Rhine Avenue	14,604	107	100.0%	N.A
Total / Overall average	2,445,452	20,208	97.7%	1,989

OPERATIONS REVIEW

Fortune REIT's portfolio of private housing estate retail properties remained buoyant despite the moderation in overall retail sales in Hong Kong. Revenue growth was driven by the successful implementation of an active leasing strategy and the positive contribution from properties with completed AEs. Portfolio occupancy remained healthy at 97.7% as at 31 December 2012 (31 December 2011: 97.0%), despite frictional vacancies due to on-going AEs at FCO and Jubilee Square. Rental reversion of 19.8% was recorded for renewals during the Reporting Year, representing one of the strongest growth rates since Fortune REIT's establishment. The portfolio's passing rent climbed to HK\$32.0 per Sq.ft.. Excluding the two new properties, passing rent for the original portfolio has improved by 8.3% year-on-year.

The completed AEs at MOSP, the second largest property in the portfolio, became a major revenue growth driver in the Reporting Year. Higher income resulting from the completed AEs at MOSP in October 2011 was fully reflected in the financials of FY2012. Based on a capital expenditure of approximately HK\$12 million, Fortune REIT achieved a return on investment ("ROI") of 73%. The net property income for MOSP has notably increased by 24.1% from the previous year.

Belvedere Square and Provident Square have recorded improving operational statistics since their integration into Fortune REIT's portfolio in February 2012. Belvedere Square, with an immediate catchment of approximately 30,000 people, had previously been focusing on necessity and service trades. Riding on approximately 44.2% of the leases expiring during the Reporting Year, the Manager has been actively enriching the trade mix by introducing new tenants. On the other hand, Provident Square, Fortune REIT's first foray into Hong Kong Island, is now almost fully let when compared with its 92.3% occupancy rate as at 30 September 2011.

As at the end of 2012, Fortune REIT's portfolio has a diverse base of 1,172 tenants. Collectively, the top ten tenants contributed approximately 26.6% of the portfolio's gross rental income for FY2012, and occupied approximately 23.0% of total Gross Rentable Area ("GRA"). Tenants in the non-discretionary retail sectors such as supermarkets, food and beverages as well as services and education trade made up approximately 60% of the total rental income, reinforcing the resilient nature of Fortune REIT across economic cycles.

The Manager will continue to focus on retaining quality tenants, securing an early commitment for expiring leases, as well as upgrading the tenant mix when opportunities arise.

Asset Enhancement Initiatives

During the Reporting Year, the Manager focused on completing the AEs at FCO and also commenced a new project at Jubilee Square.

The AEs at FCO commenced in October 2011 and completed in phases throughout the Reporting Year. Many of the existing tenants were keen to renew at a higher rental rate as they viewed the prospects as promising. On the other hand, new tenants in sectors such as banking, food and beverages, as well as general retail have been introduced to enhance the shopping experience. With a capital expenditure of approximately HK\$100 million, the project accomplished a satisfactory ROI of more than 20%.

The HK\$15 million project to renovate three floors of Jubilee Square was commenced in the second quarter of 2012 with an objective to capture the rapidly growing demand within the immediate and expanding catchment area. Work has been carried out on the third, sixth and seventh floors to upgrade the overall image and to bring in more diversified trades. With a target ROI of 15%, the project is expected to be completed in the first half of 2013.

OUTLOOK

Hong Kong's economy has experienced moderate growth in the first three quarters of 2012, with GDP up by a marginal 1.1% year-on-year. The domestic sector held up relatively better as private consumption expenditure grew by 2.8% year-on-year for the third quarter of 2012. This positive aspect was underpinned by stable job conditions and improved household income. The total value of retail sales in Hong Kong recorded a growth of 9.9% for the period from January to November 2012.

As there could be continuing pressure in the coming year on certain costs such as rising statutory minimum wage and electricity costs, inflation and other external factors, the Manager will be closely monitoring the operating expenses. As part of Fortune REIT's green policy, measures such as energy-saving initiatives will continue to be adopted which will also help to mitigate the impact of higher electricity tariffs.

The Manager remains watchful of the market environment and market opportunities, and will also continue to evaluate acquisition opportunities as they arise. The Manager maintains its commitment to drive revenue growth by implementing AEI projects, as well as effective leasing and tenant repositioning strategies. Looking ahead, a full-year income contribution from Belvedere Square and Provident Square, as well as the completed AEIs at FCO are expected to add further growth to Fortune REIT.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2012, the total number of issued units of Fortune REIT was 1,697,825,978. As compared with the position as at 31 December 2011, a total of 17,130,036 new units were issued during the Reporting Year in the following manner:

- On 4 January 2012, 3,321,723 new units were issued to the Manager at the price of HK\$3.7306 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$12.4 million payable by Fortune REIT for the period from 1 October 2011 to 31 December 2011.
- On 17 February 2012, 4,809,152 new units were issued to the Manager at the price of HK\$3.9508 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's acquisition fee of HK\$19.0 million payable by Fortune REIT for the acquisition of Belvedere Square and Provident Square.
- On 2 April 2012, 3,360,308 new units were issued to the Manager at the price of HK\$4.0727 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$13.7 million payable by Fortune REIT for the period from 1 January 2012 to 31 March 2012.
- On 4 July 2012, 3,150,378 new units were issued to the Manager at the price of HK\$4.5745 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$14.4 million payable by Fortune REIT for the period from 1 April 2012 to 30 June 2012.

- On 4 October 2012, 2,488,475 new units were issued to the Manager at the price of HK\$5.8549 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$14.6 million payable by Fortune REIT for the period from 1 July 2012 to 30 September 2012.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 15,720,000 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/or 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 or the Manager corporate governance practices and policies referred to in the Singapore Code of Corporate Governance 2005 ("Singapore Code") 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 the Manager throughout the Reporting Year.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of unitholders will be closed on Thursday, 7 February 2013, during which day no transfer of units on the Hong Kong register of unitholders will be affected. In order to qualify for the final 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 Wednesday, 6 February 2013. The payment of final distribution will be made to unitholders on Thursday, 28 February 2013.

REVIEW OF FINAL RESULTS

The final results of Fortune REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager.

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 31 December 2012.

ISSUANCE OF ANNUAL REPORT 2012

The 2012 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2013.

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
Director

Hong Kong, 24 January 2013

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 Mr. Lan Hong Tsung, David as Independent Non-executive Directors; and Mr. Ma Lai Chee, Gerald as Alternate Director to Mr. Ip Tak Chuen, Edmond.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Revenue	4	1,113,696	909,425
Property operating expenses		<u>(325,421)</u>	<u>(267,299)</u>
Net property income		788,275	642,126
Manager's base fee		(57,947)	(45,827)
Foreign currency exchange gain		205	52
Interest income		6,011	8,446
Trust expenses	6	(30,619)	(22,025)
Change in fair value of investment properties		1,796,263	3,043,804
Change in fair value of derivative financial instruments		(4,613)	3,038
Borrowing costs	7	<u>(147,118)</u>	<u>(174,110)</u>
Profit before taxation and transactions with unitholders	8	2,350,457	3,455,504
Income tax expense	9	<u>(112,078)</u>	<u>(92,403)</u>
Profit for the year, before transactions with unitholders		2,238,379	3,363,101
Distributions to unitholders		<u>(549,462)</u>	<u>(442,283)</u>
Profit for the year, after transactions with unitholders		1,688,917	2,920,818
Other comprehensive income			
Change in fair value of derivative financial instruments under cash flow hedge		<u>(15,925)</u>	<u>(72,563)</u>
Total comprehensive income for the year		<u>1,672,992</u>	<u>2,848,255</u>
Income available for distribution to unitholders		<u>549,462</u>	<u>442,283</u>
Basic earnings per unit (HK cents)	10	<u>132.07</u>	<u>200.42</u>

Distribution Statement

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Profit for the year, before transactions with unitholders		2,238,379	3,363,101
Adjustments:			
Manager's base fee		57,947	45,827
Acquisition fee		19,000	-
Change in fair value of investment properties		(1,796,263)	(3,043,804)
Change in fair value of derivative financial instruments		4,613	(3,038)
Front end fees		18,184	62,283
Foreign currency exchange gain		(205)	(52)
Other non-tax deductible trust expenses		7,807	17,966
Income available for distribution	(i)	549,462	442,283
Distributions to unitholders			
15.82 HK cents (2011: 12.80 HK cents) per unit for the six months ended 30 June	(ii)	268,327	214,805
16.53 HK cents (2011: 13.50 HK cents) per unit for the six months ended 31 December	(iii)	281,135	227,478
		549,462	442,283
Distribution per unit (HK cents)		32.35	26.30

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 15.82 HK cents for the six months ended 30 June 2012 (six months ended 30 June 2011: 12.80 HK cents) is calculated based on the Group's income available for distribution for the period of HK\$268.3 million (six months ended 30 June 2011: HK\$214.8 million) over 1,695,337,503 units (30 June 2011: 1,677,297,276 units), representing issued units as at 30 June 2012 of 1,692,187,125 units (30 June 2011: 1,674,182,145 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 2012 of 3,150,378 units (second quarter of 2011: 3,115,131 units). The distribution amounting to HK\$268.3 million (six months ended 30 June 2011: HK\$214.8 million) was paid on 29 August 2012 (six months ended 30 June 2011: 29 August 2011).

- (iii) The distribution per unit of 16.53 HK cents for the six months ended 31 December 2012 (six months ended 31 December 2011: 13.50 HK cents) is calculated based on the Group's income available for distribution for the period of HK\$281.1 million (six months ended 31 December 2011: HK\$227.5 million) over 1,700,225,414 units (31 December 2011: 1,684,017,665 units), representing issued units as at 31 December 2012 of 1,697,825,978 units (31 December 2011: 1,680,695,942 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 fourth quarter of 2012 of 2,399,436 units (fourth quarter of 2011: 3,321,723 units). The distribution for the six months ended 31 December 2011 amounting HK\$227.5 million was paid on 29 February 2012.

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investment properties	11	<u>20,208,000</u>	<u>16,388,000</u>
Current assets			
Trade and other receivables	12	55,245	49,809
Bank balances and cash		<u>578,022</u>	<u>881,721</u>
Total current assets		<u>633,267</u>	<u>931,530</u>
Total assets		<u>20,841,267</u>	<u>17,319,530</u>
Non-current liabilities			
Derivative financial instruments		145,357	124,819
Borrowings	13	3,878,815	2,794,231
Deferred tax liabilities		<u>192,886</u>	<u>170,067</u>
Total non-current liabilities		<u>4,217,058</u>	<u>3,089,117</u>
Current liabilities			
Trade and other payables	14	410,827	347,940
Borrowings	13	940,000	420,000
Distribution payable		281,135	227,478
Provision for taxation		<u>14,538</u>	<u>7,225</u>
Total current liabilities		<u>1,646,500</u>	<u>1,002,643</u>
Total liabilities, excluding net assets attributable to unitholders		<u>5,863,558</u>	<u>4,091,760</u>
Net assets attributable to unitholders		<u>14,977,709</u>	<u>13,227,770</u>
Units in issue and to be issued ('000)	15	<u>1,700,225</u>	<u>1,684,018</u>
Net asset value per unit (HK\$) attributable to unitholders	16	<u>8.81</u>	<u>7.85</u>

Notes

(1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended) made 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 consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Fortune REIT.

The 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 the 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 consolidated financial statements have been prepared on a going concern basis.

(3) Principal Accounting Policies

In the current year, the Group has applied the following amendments to IFRS issued by the International Accounting Standards Board:

Amendments to IFRS 7

Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The adoption of these amendments had no material impact on disclosure of the Group for the current year.

New and revised IFRSs issued but not effective

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

Amendments to IFRS	Annual Improvements to IFRSs 2009 – 2011 Cycle ¹
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ²
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹
IAS 19 (Revised 2011)	Employee Benefits ¹
IAS 27 (Revised 2011)	Separate Financial Statements ¹
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ¹
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ²
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹Effective for annual periods beginning on or after 1 January 2013

²Effective for annual periods beginning on or after 1 January 2014

³Effective for annual periods beginning on or after 1 January 2015

⁴Effective for annual periods beginning on or after 1 July 2012

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Manager anticipates that the application of the new and revised IFRSs will have no material impact on the consolidated financial statements.

(4) Revenue

	2012 HK\$'000	2011 HK\$'000
Base rental	808,339	652,818
Charge-out collections	208,820	173,420
Other rental	94,426	82,210
Other income	2,111	977
	<u>1,113,696</u>	<u>909,425</u>

(5) 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 16 (2011: 14) properties as at 31 December 2012 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.

(6) Trust expenses

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Trustee's fee	6,592	5,166
Acquisition fee	19,000	-
Expenses for acquisition	1,215	10,000
Other charges	3,812	6,859
	<u>30,619</u>	<u>22,025</u>

(7) Borrowing costs

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Interest expense on		
- term loans	60,054	42,308
- revolving loans	11,082	2,869
Equalisation of interest expense through interest rate swaps	56,240	50,890
Commitment fee	1,558	15,760
Front end fees		
- amortisation	18,184	11,665
- written off upon early redemption of term loans	-	50,618
	<u>147,118</u>	<u>174,110</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Audit fees	1,757	1,843
Non-audit services fee to external auditors	824	487
Fees to internal auditor	330	330
Valuation fees (paid to principal valuer)	303	419
Bank charges	485	389
	<u>485</u>	<u>389</u>

(9) Income tax expense

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Current tax		
- Hong Kong	89,341	70,347
- Singapore	533	528
- Over provision in prior years	(615)	(374)
	<u>89,259</u>	<u>70,501</u>
Deferred taxation		
- Current year	22,415	21,902
- Under provision in prior year	404	-
	<u>112,078</u>	<u>92,403</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2011: 16.5%) for the year. Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2011: 17%) for the year.

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation and tax losses using the applicable rate of 16.5%. The Manager expects to recover the carrying amount of investment properties through sale. Hence, deferred tax is determined by reference to tax consequence following disposal of the properties.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$2,238.4 million (2011: HK\$3,363.1 million) by the weighted average of 1,694,841,888 (2011: 1,678,044,294) units outstanding during the year.

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

(11) Investment properties

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Fair value at beginning of the year	16,388,000	13,300,000
During the year:		
Acquisition of investment properties	1,900,000	-
Stamp duty incurred in relation to acquisition	9,500	-
Capital expenditure incurred in upgrading investment properties	114,237	44,196
Change in fair value of investment properties	1,796,263	3,043,804
Fair value at end of the year	<u>20,208,000</u>	<u>16,388,000</u>

(12) Trade and other receivables

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
Trade receivables		
Outside parties	28,188	25,337
Related parties	1,815	-
	<u>30,003</u>	<u>25,337</u>
Other receivables and prepayments		
Security deposits	21,704	17,456
Other receivables	2,455	6,114
Prepayments	1,083	902
	<u>25,242</u>	<u>24,472</u>
	<u>55,245</u>	<u>49,809</u>

Aging analysis of the Group's trade receivables as at the end of the Reporting Year is as follows:

	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i>
0 - 30 days	29,356	25,251
31 - 90 days	594	43
Over 90 days	53	43
	<u>30,003</u>	<u>25,337</u>

(13) Borrowings

	2012 HK\$'000	2011 HK\$'000
Secured term loans	3,930,000	2,830,000
Secured revolving loans	940,000	420,000
Less: unamortised front end fees	(51,185)	(35,769)
	<u>4,818,815</u>	<u>3,214,231</u>
Carrying amount repayable:		
On demand or within one year	940,000	420,000
More than two years, but not more than five years	3,878,815	2,794,231
	<u>4,818,815</u>	<u>3,214,231</u>
Less: Amount due within one year shown under current liabilities	(940,000)	(420,000)
	<u>3,878,815</u>	<u>2,794,231</u>

(14) Trade and other payables

	2012 HK\$'000	2011 HK\$'000
Trade payables		
Tenants' deposits		
- Outside parties	287,244	229,797
- Related parties	7,416	5,398
Rental received in advance – Outside parties	14,762	12,435
	<u>309,422</u>	<u>247,630</u>
Other payables		
Trustee's fee	1,728	938
Other expenses		
- Outside parties	45,680	44,204
- Related parties	40,084	35,147
- Manager	4,328	3,365
Interest payable	5,901	1,818
Others	3,684	14,838
	<u>101,405</u>	<u>100,310</u>
	<u>410,827</u>	<u>347,940</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 Year based on lease term amounted to HK\$181.4 million (2011: HK\$145.3 million).

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2011	1,671,600	6,345,586
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2011	9,096	33,435
Balance in issue as at 31 December 2011	<u>1,680,696</u>	<u>6,379,021</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2011	3,322	12,392
Balance as at 1 January 2012	<u>1,684,018</u>	<u>6,391,413</u>
Issue of new units during the year:		
As payment of acquisition fee for the acquisition of Belvedere Square and Provident Square	4,809	19,000
As payment of Manager's base fee for the period from 1 January to 30 September 2012	8,999	42,667
Balance in issue as at 31 December 2012	<u>1,697,826</u>	<u>6,453,080</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October 2012 to 31 December 2012	2,399	15,280
Balance as at 31 December 2012	<u>1,700,225</u>	<u>6,468,360</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\$14,977.7 million (2011: HK\$13,227.8 million) and the total number of 1,700,225,414 (2011: 1,684,017,665) units in issue and 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 31 December 2012, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,013.2 million (2011: HK\$71.1 million).

As at 31 December 2012, the Group's total assets less current liabilities amounted to HK\$19,194.8 million (2011: HK\$16,316.9 million).