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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 2010 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 and the SEHK on 12 August 2003 and 20 April 2010, respectively.

Fortune REIT holds a portfolio of fourteen retail properties in Hong Kong, spread across Kowloon and the New Territories, comprising approximately 2.0 million square feet ("**Sq. ft.**") of retail space and 1,660 car parking lots. The retail properties are City One Shatin Property, Ma On Shan Plaza, Metro Town, The Metropolis Mall, Waldorf Garden Property, Caribbean Bazaar, Smartland, Tsing Yi Square Property, Jubilee Court Shopping Centre, The Household Center, Centre de Laguna Property, Hampton Loft, Lido Garden Property and Rhine Garden Property. 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 results of Fortune REIT for the year ended 31 December 2010 (“**FY2010**” or the “**Reporting Year**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2010	Year ended 31 December 2009	% change
Revenue (HK\$ million)	837.3	701.4	19.4
Net property income (HK\$ million)	596.8	494.7	20.7
Cost-to-revenue ratio	26.5%	27.2%	-0.7
Income available for distribution (HK\$ million)	406.5	337.8	20.3
Distribution per unit (HK cents)	24.35	30.20	-19.4
	As at 31 December 2010	As at 31 December 2009	% change
Net asset value per unit (HK\$)	6.18	5.32	16.2
Property valuation (HK\$ million)	13,300	11,500	15.7
Gearing ratio / Aggregate leverage ¹	21.0%	23.7%	-2.7

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.

Financial Review

Fortune REIT’s total revenue increased by 19.4% year-on-year to HK\$837.3 million for Reporting Year. Property operating expenses for the year amounted to HK\$240.4 million, giving rise to a net property income of HK\$596.8 million, a rise of 20.7% from HK\$494.7 million recorded in the previous year. Cost-to-revenue ratio was well managed at 26.5%. In spite of the short-term impact of renovation work at City One Shatin Property, Fortune REIT realised broad-based improvement from its portfolio compared to a year ago. The improved financial performance was mainly attributed to income contributions from three new properties acquired in October 2009, as well as an overall increase in occupancy and rental rates for the 11 existing properties.

Fortune REIT has income available for distribution amounting to HK\$406.5 million for FY2010, an increase of 20.3% from a year earlier. The distribution per unit (“**DPU**”) for the Reporting Year was 24.35 HK cents (2009: 30.20 HK cents), which comprised of an interim DPU of 12.27 HK cents and a final DPU of 12.08 HK cents. The lower DPU was attributed to an enlarged unit base as a result of the rights issue in October 2009. Based on HK\$4.01, the average closing unit price in Singapore and Hong Kong as of 31 December 2010, the DPU for FY2010 represents a yield of 6.1%.

Capital management

As at 31 December 2010, Fortune REIT had in place loan facilities totalling HK\$3,100 million, from which HK\$2,828.7 million of the term loan facility and HK\$79.0 million of the revolving credit facility had been drawn. Both facilities will be due on 14 October 2013. The facility is secured by, amongst other things, mortgages on nine of Fortune REIT's properties, with such properties carrying an aggregate fair value of HK\$9,557 million as at 31 December 2010. The trustee has provided a guarantee for the facilities.

The Manager continued to take a prudent approach in managing the risk in fluctuation of interest cost. As at 31 December 2010, the interest cost for 50% of Fortune REIT's term loan was fixed through entering into plain vanilla swaps. Fortune REIT's effective interest cost stood at 3.88% for FY2010. The Manager reaffirms its commitment to bringing down the interest cost.

Fortune REIT's gearing ratio and aggregate leverage was lowered to 21.0% as at 31 December 2010 (31 December 2009: 23.7%). The decrease was due to a rise in valuation of investment properties. Fortune REIT stands out from its peers as one of the lowest geared REITs in the region. A debt headroom of approximately HK\$3.0 billion provides debt flexibility, allowing for potential acquisitions in the future.

Driven primarily by an increase in the value of investment properties, Fortune REIT's net asset value per unit rose to HK\$6.18 as at 31 December 2010, up 16.2% from HK\$5.32 reported at the end of 2009. The gross liability as a percentage of gross assets was 25.5% as at 31 December 2010.

Fortune REIT, with a cash balance of HK\$506.1 million and an available revolving credit facility of approximately HK\$191.0 million as at 31 December 2010, has sufficient financial resources to satisfy its financial commitments and working capital requirements.

Portfolio valuation

Fortune REIT's portfolio of 14 retail properties was appraised at HK\$13,300 million by Savills Valuation and Professional Services Limited ("**Savills**") as at 31 December 2010, representing an increase of 15.7% from HK\$11,500 million recorded a year ago. Compared to 30 June 2010, the valuation increased by 7.1%. This is attributed to the reduction in capitalization rates, as well as an improvement in asset performance. The higher valuation has resulted in a revaluation gain of HK\$1,761.0 million for the Reporting Year.

Improved market capitalization and unit price

Fortune REIT has been listed on the SEHK since 20 April 2010 as a dual primary listing. Since the announcement of the dual primary listing, Fortune REIT's unit price has improved by more than 33.1%. The market capitalization of Fortune REIT surpassed HK\$6,000 million for the first time since its debut listing in 2003.

Portfolio Highlights

As at 31 December 2010, Fortune REIT owns a geographically diverse portfolio of 14 retail malls and properties in Hong Kong, comprising approximately 2.0 million Sq.ft. of retail space and 1,660 car parking lots.

Property	Gross Rentable Area (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
City On Shatin Property	414,469	4,146	96.0%	658
Ma On Shan Plaza	310,084	2,376	100.0%	290
Metro Town	180,822	1,775	100.0%	74
The Metropolis Mall	332,168	1,589	98.4%	179
Waldorf Garden Property	80,842	925	100.0%	73
Caribbean Bazaar	63,018	511	100.0%	117
Smartland	123,544	411	99.5%	67
Tsing Yi Square Property	78,836	364	98.4%	27
Jubilee Court Shopping Centre	170,616	355	100.0%	97
The Household Center	91,779	302	96.8%	43
Centre de Laguna Property	43,000	185	99.5%	N.A.
Hampton Loft	74,734	177	100.0%	35
Lido Garden Property	9,836	111	100.0%	N.A.
Rhine Garden Property	14,604	73	100.0%	N.A.
Total / Overall average	1,988,352	13,300	98.6%	1,660

Operation Review

As at 31 December 2010, Fortune REIT owns a geographically diverse portfolio of 14 retail malls and properties in Hong Kong, comprising approximately 2.0 million Sq.ft. of retail space and 1,660 car parking lots.

Leasing activities were buoyant during the Reporting Year. The occupancy rate of Fortune REIT's portfolio continued to improve throughout the year, climbing to a record high of 98.7% as at 31 December 2010, despite some frictional vacancies at City One Shatin Property due to tenant repositioning. Passing rent also reached a record high of HK\$28.7 per Sq. ft. as at 31 December 2010. A healthy rental reversion of 10.8% was registered for lease renewals in FY2010.

Fortune REIT housed a total of 1,017 tenants as at 31 December 2010. The top ten tenants contributed approximately 23.9% of the total portfolio's gross rental income for FY2010, and occupied approximately 21.8% of total gross rentable area. These figures illustrate the diversification of tenants within the portfolio.

The Manager will continue to focus on retaining quality tenants and strive to commit expiring leases early as well as upgrade the tenant mix when opportunities arise.

Asset Enhancement Initiatives

The Asset Enhancement Initiatives ("**AEIs**") at Ngan Shing Commercial Centre of City One Shatin Property commenced in May 2010 and were successfully completed in September 2010. The proactive leasing and marketing strategy paid off handsomely for Fortune REIT as the renovated space was fully leased prior to works completion. In 2011, the Manager will focus on employing AEIs at the other side of City One Shatin Property, specifically, City One Plaza, which has already seen retailers competing for prime spaces ahead of the actual renovation work.

Overall Strategy and Outlook

Fortune REIT has delivered a stellar performance in FY2010, riding on the back of an overall improving Hong Kong economy. Hong Kong retail sales for the first eleven months of 2010 registered an increase of 18.2% in value over the previous year. While big-ticket luxury items were the key drivers of retail sales growth, stimulated by tourists from Mainland China, domestic spending upheld strongly as well with supermarkets and food and beverage outlets registering stable growth. Fortune REIT's portfolio of private housing estate retail properties, which cater mainly to day-to-day shopping needs, will continue to benefit from the general well-being of the non-discretionary retail sectors.

Looking ahead, leases that expire in 2011 will account for 37.6% and 35.7% of Fortune REIT's leased gross rentable area and gross rental income respectively. The Manager will continue to implement effective leasing and tenant repositioning strategies, particularly in Ma On Shan Plaza and The Metropolis Mall, where around 50% of the tenancies will be up for renewal in 2011. In addition to maintaining a high level of occupancy and respectable rental rates, the Manager remains committed to drive revenue growth by implementing various asset enhancement initiatives. Leveraging on a strong balance sheet and capital structure, the Manager will continue to look for acquisition opportunities in line with addressing the long-term interests of Fortune REIT's unitholders ("**Unitholders**").

The dual primary listing of Fortune REIT on the SEHK is a very significant achievement. It represents a milestone for Fortune REIT and establishes platforms that provide Fortune REIT with access to both the Singapore and Hong Kong capital markets. This is of great benefit to the growth and long-term development of Fortune REIT. The Manager believes that through active, comprehensive and highly effective management, Fortune REIT will continue to provide satisfactory returns to Unitholders.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2010, the total number of issued number units of Fortune REIT was 1,669,032,247. As compared with the position as at 31 December 2009, a total of 10,267,212 new units were issued during the Reporting Year in the following manner:

- On 7 January 2010, 2,830,232 new units were issued to the Manager at the price of HK\$3.0725 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$8.7 million payable by Fortune REIT for the period from 1 October 2009 to 31 December 2009.
- On 12 April 2010, 2,357,120 new units were issued to the Manager at the price of HK\$3.6090 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$8.5 million payable by Fortune REIT for the period from 1 January 2010 to 31 March 2010.
- On 8 July 2010, 2,645,356 new units were issued to the Manager at the price of HK\$3.5119 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$9.3 million payable by Fortune REIT for the period from 1 April 2010 to 30 June 2010.
- On 7 October 2010, 2,434,504 new units were issued to the Manager at the price of HK\$3.8580 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$9.4 million payable by Fortune REIT for the period from 1 July 2010 to 30 September 2010.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 16,639,000 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. In particular, the Manager has adopted a compliance manual ("**Compliance Manual**") which sets out the key processes, systems, measures, and certain corporate governance policies and procedures to be applied for governing the management and operation of Fortune REIT and for compliance with all applicable regulations and legislation. The Manager has complied with the provisions of the Compliance Manual since listing of Fortune REIT in Hong Kong and has adhered to all the applicable corporate governance practices throughout the Reporting Year.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of Unitholders will be closed on Thursday, 10 February 2011, during which day no transfer of units on the Hong Kong register of Unitholders will be effected. 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 Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 9 February 2011. The payment will be made to Unitholders on Tuesday, 1 March 2011.

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 2010.

ISSUANCE OF ANNUAL REPORT 2010

The 2010 Annual Report of Fortune REIT will be dispatched to Unitholders on or before 31 March 2011.

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, 25 January 2011

The Directors of the Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Mr. Ip Tak Chuen, Edmond and Ms. Eirene Yeung 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 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Revenue	4	837,263	701,354
Property operating expenses		(240,439)	(206,694)
Net property income		596,824	494,660
Manager's base fee		(37,246)	(28,446)
Foreign currency exchange gain		190	25
Interest income		923	728
Trust (expenses)/ income		(37,507)	2,521
Change in fair value of investment properties		1,760,977	806,283
Change in fair value of derivative financial instruments		(54,879)	-
Borrowing costs	6	(131,912)	(96,382)
Profit before taxation and transactions with unitholders		2,097,370	1,179,389
Income tax expense	7	(78,071)	(66,201)
Profit for the year, before transactions with unitholders		2,019,299	1,113,188
Distributions to unitholders		(406,487)	-
Profit for the year, after transactions with unitholders		1,612,812	1,113,188
Other comprehensive income			
Change in fair value of derivative financial instruments under cash flow hedge		27,097	37,407
Total comprehensive income for the year		1,639,909	1,150,595
Income available for distribution to unitholders		406,487	337,841
Basic earnings per unit (HK cents)	8	121.13	110.95

DISTRIBUTION STATEMENT

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
Profit for the year, before transactions with unitholders		2,019,299	1,113,188
Adjustments:			
Manager's base fee		37,246	28,446
Change in fair value of investment properties		(1,760,977)	(806,283)
Change in fair value of derivative financial instruments		54,879	-
Amortisation of front end fees		22,162	8,223
Foreign currency exchange gain		(190)	(25)
Other non-tax deductible trust expenses/ (income)		34,068	(5,708)
Income available for distribution	(i)	406,487	337,841
Distributions to unitholders			
12.27 HK cents (2009: 19.60 HK cents) per unit for the six months ended 30 June	(ii)	204,571	161,698
12.08 HK cents (2009: 10.60 HK cents) per unit for the six months ended 31 December	(iii)	201,916	176,143
		406,487	337,841
Distribution per unit (HK cents)		24.35	30.20

Notes:

- (i) The distribution policy of Fortune REIT has been amended on 26 March 2010. The current distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (a) 100.0% 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) 90.0% 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 Code on Real Estate Investment Trust (the "REIT Code") published by Securities and Futures Commission ("SFC").
- (ii) The distribution per unit of 12.27 HK cents for the six months ended 30 June 2010 (six months ended 30 June 2009: 19.60 HK cents) is calculated based on the Group's income available for distribution for the period of HK\$204.6 million (six months ended 30 June 2009: HK\$161.7 million) over 1,666,597,743 units (30 June 2009: 824,879,427 units), representing issued units as at 30 June 2010 of 1,663,952,387 units (30 June 2009: 823,118,206 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its service in the second quarter of 2010 of 2,645,356 units (second quarter of 2009: 1,761,221 units). The distribution amounting to HK\$204.5 million (six months ended 30 June 2009: HK\$161.7 million) was paid on 27 August 2010 (six months ended 30 June 2009: 28 August 2009).

- (iii) The distribution per unit of 12.08 HK cents for the six months ended 31 December 2010 (six months ended 31 December 2009: 10.60 HK cents) is calculated based on the Group's income available for distribution for the period of HK\$201.9 million (six months ended 31 December 2009: HK\$176.1 million) over 1,671,599,900 units (31 December 2009: 1,661,595,267 units), representing issued units as at 31 December 2010 of 1,669,032,247 units (31 December 2009: 1,658,765,035 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its service in the fourth quarter of 2010 of 2,567,653 units (fourth quarter of 2009: 2,830,232 units). The distribution for the six months ended 31 December 2009 amounting to HK\$176.1 million was paid on 26 February 2010.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	13,300,000	11,500,000
Plant and equipment		-	44
Total non-current assets		<u>13,300,000</u>	<u>11,500,044</u>
Current assets			
Trade and other receivables	10	63,241	47,619
Bank balances and cash		506,073	515,341
Total current assets		<u>569,314</u>	<u>562,960</u>
Total assets		<u>13,869,314</u>	<u>12,063,004</u>
Non-current liabilities			
Derivative financial instruments		55,294	415
Borrowings	11	2,772,448	-
Deferred tax liabilities		148,165	132,991
Total non-current liabilities		<u>2,975,907</u>	<u>133,406</u>
Current liabilities			
Trade and other payables	12	269,747	276,474
Borrowings	11	79,000	2,786,286
Derivative financial instruments		-	27,097
Distribution payable		201,995	-
Provision for taxation		8,977	7,079
Total current liabilities		<u>559,719</u>	<u>3,096,936</u>
Total liabilities, excluding net assets attributable to unitholders		<u>3,535,626</u>	<u>3,230,342</u>
Net assets attributable to unitholders		<u><u>10,333,688</u></u>	<u><u>8,832,662</u></u>

	<i>Notes</i>	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
UNITHOLDERS' FUNDS			
Equity and reserves		-	<u>8,832,662</u>
Units in issue and to be issued ('000)	13	<u>1,671,600</u>	<u>1,661,595</u>
Net asset value per unit (HK\$) attributable to unitholders	14	<u>6.18</u>	<u>5.32</u>

Notes

(1) General

Fortune Real Estate Investment Trust (“Fortune REIT”) is a real estate investment trust constituted by a trust deed entered into on 4 July 2003 (as amended) (“Trust Deed”) made between ARA Asset Management (Fortune) Limited (formally known as ARA Asset Management (Singapore) 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 the Singapore Exchange Securities Trading Limited and The Stock Exchange of Hong Kong Limited (“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 (“IFRSs”) issued by the International Accounting Standards Board, and draw up in accordance with the applicable requirements of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore and the Trust Deed.

In addition, the consolidated financial statements include the relevant disclosure requirements set out in Appendix C of the REIT Code issued by SFC and the Rules Governing the Listing of Securities on the SEHK.

In accordance with the amended Trust Deed, Fortune REIT has adopted the IFRSs with effect from the first quarter of 2010. Prior to 2010, Fortune REIT prepared its financial statements in accordance with the provisions of Singapore Financial Reporting Standards. The adoption of IFRSs does not result in changes to the Group’s accounting policies and accordingly no adjustments were made to prior or current accounting periods and no reconciliation of the Group’s equity and total comprehensive income has been prepared under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

(3) Principal Accounting Policies

The Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised IFRSs"), which are effective for the Group's financial year beginning on 1 January 2010.

New and revised IFRSs

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements

The Group applies IFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current period in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

The adoption of the remaining new and revised IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustments have been recognised.

Amendments to IAS 12 Deferred Tax Recovery of Underlying Assets

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2012. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. Prior to these amendments, the Group measures deferred tax liability on investment properties based on the tax consequences that would follow from the manner in which the Manager expects to recover the carrying amount in investment properties through sale. Accordingly, the Group's accounting treatment has already followed the requirement under these amendments.

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

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ²
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ³
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ³
IFRS 9	Financial Instruments ⁴
IAS 24 (Revised)	Related Party Disclosures ⁵
IAS 32 (Amendments)	Classification of Rights Issues ⁶
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁵
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 February 2010

IFRS 9 Financial Instruments was issued in November 2009 and revised in October 2010. It introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be 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 accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability designated as at fair value through profit or loss attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognised 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Manager anticipates that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The amendments to IFRS 7 Disclosures – Transfers of Financial Assets 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.

To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers will be affected.

The Manager anticipates that the application of other amendments and interpretations will have no material impact on the consolidated financial statements.

(4) Revenue

	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
Base rental	593,128	498,939
Charge-out collections	160,806	133,527
Short term rental	81,702	67,530
Other income	1,627	1,358
	<u>837,263</u>	<u>701,354</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 fourteen (2009: fourteen) properties as at 31 December 2010 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 operating segment and no further analysis for segment information is presented.

(6) Borrowing costs

	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
Interest expense on		
- term loans	46,540	25,932
- revolving loan	59	15
Equalisation of interest expense through cash flow hedge	55,081	61,819
Amortisation of commitment fee	8,070	393
Amortisation of front end fees	22,162	8,223
	<u>131,912</u>	<u>96,382</u>

(7) Income tax expense

	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
Current tax:		
- Hong Kong	62,747	50,528
- Singapore	156	122
- Over provision in prior years	(6)	-
	<u>62,897</u>	<u>50,650</u>
Deferred taxation	15,174	15,551
	<u>78,071</u>	<u>66,201</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2009: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2009: 17%).

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 the tax consequence following disposal of the properties.

(8) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$2,019.3 million (2009: HK\$1,113.2 million), by the weighted average of 1,666,986,350 (2009: 1,003,312,084) units outstanding during the year ended 31 December 2010.

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

(9) Investment properties

	<i>2010</i> <i>HK\$'000</i>	<i>2009</i> <i>HK\$'000</i>
Fair value at beginning of the year	11,500,000	8,602,000
Acquisition of investment properties	-	2,039,000
Capital expenditure incurred	39,023	52,717
Change in fair value of investment properties	1,760,977	806,283
Fair value at end of the year	<u>13,300,000</u>	<u>11,500,000</u>

(10) Trade and other receivables

	2010 HK\$'000	2009 HK\$'000
Trade receivables	27,794	25,871
Less: allowance for doubtful debts	(3)	(4,216)
	<u>27,791</u>	<u>21,655</u>
Other receivables		
Security deposits	17,404	17,119
Other receivables	930	54
GST receivables	1,159	7,296
Prepayments	15,957	1,495
	<u>35,450</u>	<u>25,964</u>
Total	<u><u>63,241</u></u>	<u><u>47,619</u></u>

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

	2010 HK\$'000	2009 HK\$'000
1 - 30 days	27,772	17,936
31 - 90 days	5	3,715
Over 90 days	14	4
	<u>27,791</u>	<u>21,655</u>

(11) Borrowings

	2010 HK\$'000	2009 HK\$'000
Secured term loans	2,828,700	2,828,700
Secured revolving loans	79,000	36,000
Less: unamortised front end fees	(56,252)	(78,414)
	<u>2,851,448</u>	<u>2,786,286</u>
Carrying amount repayable:		
On demand or within one year	79,000	2,786,286
More than one year, but not more than five years	2,772,448	-
	<u>2,851,448</u>	<u>2,786,286</u>
Less: Amount due within one year shown under current liabilities	(79,000)	(2,786,286)
	<u><u>2,772,448</u></u>	<u><u>-</u></u>

(12) Trade and other payables

	2010 HK\$'000	2009 HK\$'000
Trade payables		
Tenants' deposits		
- Outside parties	189,909	177,197
- Related parties	6,616	9,288
Rental received in advance		
- Outside parties	7,572	10,158
	<u>204,097</u>	<u>196,643</u>
Other payables		
Trustee's fee	753	564
Other expenses		
- Outside parties	35,889	42,466
- Related parties	24,352	19,255
Interest payable	1,089	2,176
Others		
- Outside parties	3,567	12,223
- Related parties	-	3,147
	<u>65,650</u>	<u>79,831</u>
Total	<u>269,747</u>	<u>276,474</u>

Trade payables 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\$122.3 million (2009: HK\$111.6 million) as at 31 December 2010.

(13) Units in issue and to be issued

	2010 Number of units '000	2009 Number of units '000	2010 HK\$'000	2009 HK\$'000
At beginning of year	1,661,595	820,819	6,308,340	4,370,531
Issue of new units during the year:				
- Rights issue	-	824,879	-	1,888,973
- As payment of Manager's base fee	7,437	6,695	27,189	19,750
- As payment of Manager's acquisition fees	-	6,372	-	20,390
Balance in issue	<u>1,669,032</u>	<u>1,658,765</u>	<u>6,335,529</u>	<u>6,299,644</u>
New units to be issued:				
As payment of Manager's base fee for the period from 1 October to 31 December 2010 (1 October to 31 December 2009)	<u>2,568</u>	<u>2,830</u>	<u>10,057</u>	<u>8,696</u>
At end of year	<u>1,671,600</u>	<u>1,661,595</u>	<u>6,345,586</u>	<u>6,308,340</u>

(14) 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\$10,333.7 million (2009: unitholders' funds of HK\$8,832.7 million) and the total number of 1,671,599,900 (2009: 1,661,595,267) units in issue or to be issued, including the new units to be issued as payment of manager's base fee.

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

As at 31 December 2010, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$9.6 million (2009: net current liabilities HK\$2,534.0 million).

As at 31 December 2010, the Group's total assets less current liabilities amounted to HK\$13,309.6 million (2009: HK\$8,966.1 million).