FORTUNE 置富產業信託 REIT

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

(An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011 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 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 Fortune City One, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Waldorf Avenue, Caribbean Square, Smartland, Jubilee Square, 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 2011 (the "**Reporting Year**" or "**FY2011**") as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2011	Year ended 31 December 2010	% change
Revenue (HK$ million)	**909.4**	837.3	8.6%
Net property income (HK$ million)	**642.1**	596.8	7.6%
Cost-to-revenue ratio	**27.2%**	26.5%	0.7%
Income available for distribution (HK$ million)	**442.3**	406.5	8.8%
Distribution per unit (HK cents)	**26.30**	24.35	8.0%
	As at 31 Dec 2011	As at 31 Dec 2010	% change
Net asset value per unit (HK$)	**7.85**	6.18	27.0%
Property valuation (HK$ million)	**16,388**	13,300	23.2%
Gearing ratio / Aggregate leverage[1]	**18.8%**	21.0%	(2.2%)

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 2011, 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 total revenue increased by 8.6% year-on-year to HK$909.4 million for FY2011. This increase was attributable to the continued upbeat retail environment and the improvement in performance of underlying assets. Better consumer sentiment was underpinned by vibrant local consumption as retail sales continued to post double-digit growth throughout the year, despite a deteriorating external environment in the latter part of the year. The enhanced performance across the portfolio of 14 retail properties was instrumental in driving the excellent results for FY2011. In particular, there was a strong increase in income contribution from Fortune City One ("**FCO**") resulting from the renovation of Fortune City One Plus ("**FCOP**") in September 2010.

The net property income for FY2011 was HK$642.1 million, up 7.6% year-on-year. Despite continuous inflationary pressure and the minimum wage legislation coming into effect in Hong Kong, cost-to-revenue ratio was kept at a healthy rate of 27.2%. Fortune REIT had an income available for distribution amounting to HK$442.3 million for FY2011, an increase of 8.8% from a year earlier. The DPU for the Reporting Year was 26.30 HK cents (2010: 24.35 HK cents), comprising an interim DPU of 12.80 HK cents and a final DPU of 13.50 HK cents. This higher DPU was attributed to better asset performance and prudent capital management. Based on HK$3.775, the average closing unit price in Singapore and Hong Kong as of 30 December 2011, the DPU of FY2011 represents a yield of 7.0%.

The Final DPU of 13.50 HK cents for the six months ended 31 December 2011 will be paid on 29 February 2012 to unitholders on the registers of unitholders of Fortune REIT as at 13 February 2012.

Capital Management Initiatives

When a low interest rate environment prevailed in the first half of 2011, Fortune REIT capitalised on the tight window in the credit market and successfully refinanced its entire existing loan facilities totalling HK$3,100 million well ahead of maturity. This new facility is secured by, amongst other items, mortgages on nine of Fortune REIT's properties carrying an aggregate value of HK$11,654 million as at 31 December 2011. The trustee has provided a guarantee for the facilities.

Under the new facility, Fortune REIT's outstanding debt maturity has been extended to April 2016. In terms of borrowing cost, the interest margin has been substantially reduced to 0.91% per annum over the Hong Kong Interbank Offer Rate ("**HIBOR**"). In addition, the revolving credit facilities portion has been expanded to HK$970 million from HK$270 million, enhancing the funding flexibility for acquisition opportunities and other yield-enhancing asset enhancement initiatives ("**AEIs**").

The Manager continued to take a prudent approach in managing the risks which may arise due to fluctuation of interest cost. As at 31 December 2011, the interest cost for 100% of Fortune REIT's term loan was fixed through entering into plain vanilla swaps. The Manager reaffirmed its commitment to bringing down interest cost. Fortune REIT's effective interest cost was lowered to 3.65% for FY2011.

As at 31 December 2011, Fortune REIT's gearing ratio and aggregate leverage has been lowered to 18.8% (31 December 2010: 21.0%). This decrease was due to a rise in valuation of investment properties. Fortune REIT remains as one of the lowest geared REITs in Hong Kong and Singapore.

Portfolio Valuation

Fortune REIT's portfolio of 14 retail properties was appraised at HK$16,388 million by Knight Frank Petty Limited ("**Knight Frank**") as at 31 December 2011. This represented an increase of 23.2% from HK$13,300 million recorded a year ago. Compared to 30 June 2011, the valuation increased by 4.5%. This was attributed to an improvement in the performance of the underlying assets. The higher valuation also resulted in a revaluation gain of HK$3,043.8 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 2011, 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
Fortune City One	414,469	4,895	94.7%	658
Ma On Shan Plaza	310,084	3,302	98.0%	290
Metro Town	180,822	2,200	99.4%	74
Fortune Metropolis	332,168	1,728	92.0%	179
Waldorf Avenue	80,842	1,164	100.0%	73
Caribbean Square	63,018	680	100.0%	117
Smartland	123,544	485	99.3%	67
Jubilee Square	170,616	479	98.0%	97
Tsing Yi Square	78,836	439	100.0%	27
Nob Hill Square	91,779	359	99.8%	43
Centre de Laguna	43,000	217	100.0%	N.A.
Hampton Loft	74,734	211	100.0%	35
Lido Avenue	9,836	133	100.0%	N.A.
Rhine Avenue	14,604	96	100.0%	N.A.
Total / Overall average	**1,988,352**	**16,388**	**97.0%**	**1,660**

OPERATIONS REVIEW

As at 31 December 2011, 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.

As a result of the positive leasing momentum throughout the year as well as a number of well-executed repositioning strategies in the completed AEI works, Fortune REIT continued to deliver a robust set of operational performances for the Reporting Period. As at 31 December 2011, portfolio occupancy rate remained healthy at 97.0%, while passing rent has improved by more than 12.2% from a year ago to a record high of HK$32.2 per sq ft. A healthy rental reversion of 15.2% was also registered for lease renewals in FY2011.

Investments in completed AEIs began to bear fruit in the Reporting Year. Higher income resulting from the AEIs completed in September 2010 at FCOP was fully reflected in the financials of FY2011. Fortune REIT achieved a return of investment ("**ROI**") of 22% on a capital expenditure of HK$30 million for the FCOP project. The net property income for FCO has notably increased by 14.9% from the previous year. This has contributed to drive revenue growth within Fortune REIT's portfolio.

As at the end of 2011, Fortune REIT's portfolio has a diverse base of 1,031 tenants. Collectively, the top ten tenants contributed approximately 26.8% of the portfolio's gross rental income for FY2011 and occupied approximately 21.3% of total GRA. Tenants in the non-discretionary sectors such as supermarkets, food and beverage and services and educations trade made up more than 54% of the total rental income, reinforcing Fortune REIT's resilient nature.

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

Asset Enhancement Initiatives

Yield-enhancing AEIs have been launched at the portfolio's two largest properties, FCO and Ma On Shan Plaza ("**MOSP**"), and this has led to some short term vacancies since the third quarter of 2011. As at 31 December 2011, the occupancy rates of FCO and MOSP have returned to 94.7% and 98.0% respectively.

During the third quarter of 2011, the Manager reconfigured a 50,000 sq. ft. space in MOSP which was previously used for a Chinese restaurant. The space has been subdivided to accommodate a more diversified retail mix to add attractiveness to the mall and increase rental revenue. The space was 100% pre-committed prior to the completion of works, and a ROI of 73% was achieved based on a capital expenditure of approximately HK$12 million.

The AEIs at FCO commenced in October 2011 and will be carried out in phases until the end of 2012. The mall will be transformed to offer a more attractive retail experience, and a relaxing new Central Park which features a more efficient layout and zoning. Building facilities will be enhanced and exciting new retail offerings will be in place. The cost of the project is estimated to be approximately HK$100 million with target ROI of 15%.

Fortune REIT has a solid track record of achieving good returns on its AEIs. The Manager intends to work diligently to improve the rental income and value of the portfolio by undertaking additional yield-enhancing AEIs.

OUTLOOK

In the Reporting Year, Fortune REIT has delivered another set of robust performances. Hong Kong retail sales for the first eleven months of 2011 registered a growth of 25% in value over the previous year. Retail sales have recorded an increase for 27 consecutive months. The Hong Kong government expects favourable income conditions and local consumer sentiment to continue to support retail sales growth in the near term. It is expected that 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 sector.

The Manager remains committed to drive revenue growth by implementing various AEIs, as well as effective leasing and tenant repositioning strategies. This is particularly so for the flagship mall FCO, where AEI works will continue in phases throughout 2012.

On 28 December 2011, Fortune REIT announced the proposed acquisition of two retail properties in Hong Kong – Belvedere Garden Property and Provident Centre Property. Fully funded by debt, this immediately yield-accretive acquisition has been unanimously approved by the independent Unitholders present in person or by proxy and voting at the extraordinary general meeting held on 19 January 2012. The acquisition would enlarge Fortune REIT's portfolio by 23% and further enhance income diversification. It is expected that the acquisition will be completed no later than 28 March 2012.

As there could be continuing pressure in the coming year on certain cost items such as utility tariff due to 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; this will also help to reduce the impact of increase in electricity tariff.

The Manager will remain watchful of the market environment and market opportunities, but will also continue to evaluate acquisition opportunities as they arise. The Manager will also continue to upgrade and enhance the assets to increase the value of the portfolio. In 2012, following the completion of the proposed acquisition of Belvedere Garden Property and Provident Centre Property, the Manager expects Fortune REIT's Unitholders to enjoy a larger distribution income, as well as a more stable income stream as a result of the enlarged portfolio.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2011, the total number of issued units of Fortune REIT was 1,680,695,942. As compared with the position as at 31 December 2010, a total of 11,663,695 new units were issued during the Reporting Year in the following manner:

- On 5 January 2011, 2,567,653 new units were issued to the Manager at the price of HK$3.9168 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$10.1 million payable by Fortune REIT for the period from 1 October 2010 to 31 December 2010.

- On 4 April 2011, 2,582,245 new units were issued to the Manager at the price of HK$3.8100 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$9.8 million payable by Fortune REIT for the period from 1 January 2011 to 31 March 2011.

- On 5 July 2011, 3,115,131 new units were issued to the Manager at the price of HK$3.7667 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$11.7 million payable by Fortune REIT for the period from 1 April 2011 to 30 June 2011.

- On 3 October 2011, 3,398,666 new units were issued to the Manager at the price of HK$3.4904 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$11.9 million payable by Fortune REIT for the period from 1 July 2011 to 30 September 2011.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 8,265,000 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. The Manager is also subject to the applicable Singapore regulations and legislation as well as corporate governance practices and policies referred to in the Singapore Code of Corporate Governance 2005 ("**Singapore Code**"). 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 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 Monday, 13 February 2012, 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 Friday, 10 February 2012. The payment of final distribution will be made to unitholders on Wednesday, 29 February 2012.

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 2011.

ISSUANCE OF ANNUAL REPORT 2011

The 2011 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2012.

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, 30 January 2012

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. 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 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	4	909,425	837,263
Property operating expenses		(267,299)	(240,439)
Net property income		**642,126**	**596,824**
Manager's base fee		(45,827)	(37,246)
Foreign currency exchange gain		52	190
Interest income		8,446	923
Trust expenses		(22,025)	(37,507)
Change in fair value of investment properties		3,043,804	1,760,977
Change in fair value of derivative financial instruments		3,038	(54,879)
Borrowing costs	6	(174,110)	(131,912)
Profit before taxation and transactions with unitholders	7	**3,455,504**	**2,097,370**
Income tax expense	8	(92,403)	(78,071)
Profit for the year, before transactions with unitholders		**3,363,101**	**2,019,299**
Distributions to unitholders		(442,283)	(406,487)
Profit for the year, after transactions with unitholders		**2,920,818**	**1,612,812**
Other comprehensive income			
Change in fair value of derivative financial instruments under cash flow hedge		(72,563)	27,097
Total comprehensive income for the year		**2,848,255**	**1,639,909**
Income available for distribution to unitholders		**442,283**	**406,487**
Basic earnings per unit (HK cents)	9	200.42	121.13

Distribution Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Profit for the year, before transactions with unitholders		**3,363,101**	**2,019,299**
Adjustments:			
Manager's base fee		45,827	37,246
Change in fair value of investment properties		(3,043,804)	(1,760,977)
Change in fair value of derivative financial instruments		(3,038)	54,879
Front end fees		62,283	22,162
Foreign currency exchange gain		(52)	(190)
Other non-tax deductible trust expenses		17,966	34,068
Income available for distribution	(i)	**442,283**	**406,487**
Distributions to unitholders			
12.80 HK cents (2010: 12.27 HK cents) per unit for the six months ended 30 June	(ii)	214,805	204,571
13.50 HK cents (2010: 12.08 HK cents) per unit for the six months ended 31 December	(iii)	227,478	201,916
		442,283	**406,487**
Distribution per unit (HK cents)		**26.30**	**24.35**

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% 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 12.80 HK cents for the six months ended 30 June 2011 (six months ended 30 June 2010: 12.27 HK cents) is calculated based on the income available for distribution for the period of HK$214.8 million (six months ended 30 June 2010: HK$204.6 million) over 1,677,297,276 units (30 June 2010: 1,666,597,743 units), representing issued units as at 30 June 2011 of 1,674,182,145 units (30 June 2010: 1,663,952,387 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager’s base fee for its service in the second quarter of 2011 of 3,115,131 units (second quarter of 2010: 2,645,356 units). The distribution amounting to HK$ 214.8 million (six months ended 30 June 2010: HK$204.6 million) was paid on 29 August 2011 (six months ended 30 June 2010: 27 August 2010).

(iii) The distribution per unit of 13.50 HK cents for the six months ended 31 December 2011 (six months ended 31 December 2010: 12.08 HK cents) is calculated based on the Group’s income available for distribution for the period of HK$227.5 million (six months ended 31 December 2010: HK$201.9 million) over 1,684,017,665 units (31 December 2010: 1,671,599,900 units), representing issued units as at 31 December 2011 of 1,680,695,942 units (31 December 2010: 1,669,032,247 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 2011 of 3,321,723 units (fourth quarter of 2010: 2,567,653 units). The distribution for the six months ended 31 December 2010 amounting to HK$201.9 million was paid on 1 March 2011.

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	*2011* *HK$'000*	*2010* *HK$'000*
ASSETS AND LIABILITIES			
Non-current asset			
Investment properties	10	16,388,000	13,300,000
Current assets			
Trade and other receivables	11	49,809	63,241
Bank balances and cash		881,721	506,073
Total current assets		931,530	569,314
Total assets		17,319,530	13,869,314
Non-current liabilities			
Derivative financial instruments		124,819	55,294
Borrowings	12	2,794,231	2,772,448
Deferred tax liabilities		170,067	148,165
Total non-current liabilities		3,089,117	2,975,907
Current liabilities			
Trade and other payables	13	347,940	269,747
Borrowings	12	420,000	79,000
Distribution payable		227,478	201,995
Provision for taxation		7,225	8,977
Total current liabilities		1,002,643	559,719
Total liabilities, excluding net assets attributable to unitholders		4,091,760	3,535,626
Net assets attributable to unitholders		**13,227,770**	**10,333,688**
Units in issue and to be issued ('000)	14	**1,684,018**	**1,671,600**
Net asset value per unit (HK$) attributable to unitholders	15	**7.85**	**6.18**

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 ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), and are drawn up in accordance with the relevant provision of the Trust Deed, the relevant requirements of the Code on Collective Investment 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 consolidated financial statements have been prepared on a going concern basis.

(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**") issued by the IASB, which are effective for the Group's financial year beginning on 1 January 2011.

IFRSs (Amendments)	Improvements to IFRSs 2010
IAS 24 (Revised 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the 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.

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

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures — offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[2]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012
[5] Effective for annual period beginning on or after 1 January 2014

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 Manager does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures for the current year. However, if the Group enters into transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

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 the 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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Manager anticipates that IFRS 9 will be adopted in the Group's financial statements for the annual period beginning 1 January 2015 but that the application of IFRS 9 may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these Standards that are applicable to the Group are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn upon the issuance of IFRS 10. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these standards are applied early at the same time.

The Manager anticipates that these standards will be adopted in the Group's financial statements for the annual period beginning 1 January 2013. However, the application of these standards may not have significant impact on amounts reported in the consolidated financial statements.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Manager anticipates that IFRS 13 will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

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

(4) Revenue

	2011	*2010*
	HK$'000	*HK$'000*
Base rental	652,818	593,128
Charge-out collections	173,420	160,806
Short term rental	82,210	81,702
Other income	977	1,627
	909,425	837,263

(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 14 (2010: 14) properties as at 31 December 2011 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) Borrowing costs

	2011 *HK$'000*	*2010* *HK$'000*
Interest expense on		
- term loans	42,308	46,540
- revolving loan	2,869	59
Equalisation of interest expense through cash flow hedge	50,890	55,081
Commitment fee	15,760	8,070
Front end fees		
- amortisation	11,665	22,162
- written off upon early redemption of term loans	50,618	-
	174,110	131,912

(7) Profit before taxation and transactions with unitholders

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

	2011 *HK$'000*	*2010* *HK$'000*
Audit fees to external auditors in respect of		
- Current year	1,635	1,276
- Prior year	208	-
Non-audit services fee to external auditors	487	490
Fees to internal auditor	330	400
Valuation fees (paid to principal valuer)	419	312
Allowance for doubtful debts	-	3
Depreciation of plant and equipment	-	44
Bank charges	389	447

(8) Income tax expense

	2011 HK$'000	2010 HK$'000
Current tax:		
- Hong Kong	70,347	62,747
- Singapore	528	156
- Over provision in prior years	(374)	(6)
	70,501	62,897
Deferred taxation	21,902	15,174
	92,403	78,071

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2010: 16.5%).

Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2010: 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, no deferred tax is recognised in respect of the cumulative fair value gains on investment properties as they are not subject to tax upon disposal.

(9) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK$3,363.1 million (2010: HK$2,019.3 million) by the weighted average of 1,678,044,294 (2010: 1,666,986,350) 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 as at the end of the financial year.

(10) Investment properties

	2011 HK$'000	2010 HK$'000
Fair value at beginning of year	13,300,000	11,500,000
Capital expenditure incurred	44,196	39,023
Change in fair value of investment properties	3,043,804	1,760,977
Fair value at end of year	16,388,000	13,300,000

(11) Trade and other receivables

	2011 HK$'000	2010 HK$'000
Trade receivables	25,337	27,794
Less: Allowances for doubtful debts	-	(3)
	25,337	27,791
Other receivables and prepayments		
Security deposits	17,456	17,404
Other receivables	6,114	2,089
Prepayments	902	15,957
	24,472	35,450
	49,809	63,241

Aging analysis of the Group's trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the Reporting Year is as follows:

	2011 HK$'000	2010 HK$'000
1 - 30 days	25,251	27,772
31 - 90 days	43	5
Over 90 days	43	14
	25,337	27,791

(12) Borrowings

	2011 HK$'000	2010 HK$'000
Secured term loans	2,830,000	2,828,700
Secured revolving loans	420,000	79,000
Less: unamortised front end fees	(35,769)	(56,252)
	3,214,231	2,851,448
Carrying amount repayable:		
On demand or within one year	420,000	79,000
More than two years, but not more than five years	2,794,231	2,772,448
	3,214,231	2,851,448
Less: Amount due within one year shown under current liabilities	(420,000)	(79,000)
	2,794,231	2,772,448

(13) Trade and other payables

	2011 HK$'000	2010 HK$'000
Trade payables		
Tenants' deposits		
- Outside parties	229,797	189,909
- Related parties	5,398	6,616
Rental received in advance – Outside parties	12,435	7,572
	247,630	204,097
Other payables		
Trustee's fee	938	753
Other expenses		
- Outside parties	44,204	35,889
- Related parties	35,147	21,164
- Manager	3,365	3,188
Interest payable	1,818	1,089
Others	14,838	3,567
	100,310	65,650
	347,940	269,747

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$145.3 million (2010: HK$122.3 million) as at 31 December 2011.

(14) Units in issue and to be issued

	2011 Number of units '000	2010 Number of units '000	2011 HK$'000	2010 HK$'000
At beginning of year	1,671,600	1,661,595	6,345,586	6,308,340
Issue of new units during the year:				
- As payment of Manager's base fee	9,096	7,437	33,435	27,189
Balance in issue	1,680,696	1,669,032	6,379,021	6,335,529
New units to be issued:				
- As payment of Manager's base fee for the period from 1 October to 31 December 2011 (2010: 1 October to 31 December 2010)	3,322	2,568	12,392	10,057
At end of year	1,684,018	1,671,600	6,391,413	6,345,586

(15) 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$13,227.8 million (2010: HK$10,333.7 million) and the total number of 1,684,017,665 (2010: 1,671,599,900) units in issue or to be issued, including the new units to be issued as payment of Manager's base fee.

(16) Net current liabilities/assets and total assets less current liabilities

As at 31 December 2011, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK$71.1 million (2010: net current assets of HK$9.6 million).

As at 31 December 2011, the Group's total assets less current liabilities amounted to HK$16,316.9 million (2010: HK$13,309.6 million).

(17) Subsequent Event

Fortune REIT had announced on 28 December 2011 a proposal to acquire the Belvedere Garden Property and the Provident Centre Property (as defined in the circular dated on 28 December 2011) from subsidiaries of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited and an independent third party of Fortune REIT for a total consideration of HK$1,900 million (subject to customary adjustments for the net current assets/liabilities of the property owning companies, as applicable, at the date of completion).

Subsequent to the end of the reporting period, the proposed acquisition was unanimously approved by the independent Unitholders present in person or by proxy and voting at the extraordinary general meeting held on 19 January 2012. The transaction has not yet been completed as at the date these financial statements were authorised for issuance.