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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 2013 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.

On 9 October 2013, Fortune REIT completed the acquisition of Kingswood Ginza Property (rebranded as Fortune Kingswood). Following the acquisition, Fortune REIT holds a portfolio of 17 retail properties in Hong Kong, comprising approximately 3.11 million square feet ("Sq.ft.") of retail space and 2,606 car parking lots. The retail properties are Fortune City One, Fortune Kingswood, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi Square, Nob Hill Square, Hampton Loft, Centre de Laguna, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of the Manager (the “Board”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2013 (the “Reporting Year” or “FY2013”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Revenue (HK\$ million)	1,317.5	1,113.7	+18.3%
Net property income (HK\$ million)	928.3	788.3	+17.8%
Cost-to-revenue ratio	27.4%	27.0%	+0.4%
Income available for distribution (HK\$ million)	642.4	549.5	+16.9%
Distribution per unit (“DPU”) (HK cents)	36.00	32.35	+11.3%
	As at 31 December 2013	As at 31 December 2012	% change
Net asset value per unit (HK\$)	10.26	8.81	+16.5%
Property valuation (HK\$ million)	29,338	20,208	+45.2%
Gearing ratio / Aggregate leverage ¹	32.7%	23.4%	+9.3%

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 2013, 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 FY2013 total revenue and net property income (“NPI”) increased by 18.3% and 17.8% year-on-year to HK\$1,317.5 million and HK\$928.3 million respectively – marking ten consecutive years of continuous growth. This sustained performance was underpinned by the effective execution of our three core strategies – investment, asset management and asset enhancement. During the Reporting Year, contributing factors including (i) higher occupancy rates; (ii) strong rental growth across the entire portfolio; (iii) excellent returns from completed AEs; (iv) additional income from Fortune Kingswood acquired in October 2013; as well as (v) the full-year income stream from Belvedere Square and Provident Square, have all contributed to Fortune REIT’s exceptional financial performance.

Total property operating expenses for FY2013 (excluding Manager’s performance fee) increased by 19.7% year-on-year to HK\$360.4 million. The increase was mainly attributed to the additional expenses from Fortune Kingswood, as well as the full-period effect of expenses from Belvedere Square and Provident Square. Despite the inflationary environment, the cost-to-revenue ratio was kept steady at 27.4% for the Reporting Year (2012: 27.0%).

Total borrowing costs (excluding front end fees) were HK\$153.8 million for the Reporting Year, showing an increase of 19.3% year-on-year as a result of the drawdown of additional loan facilities to finance the acquisition of Fortune Kingswood.

Fortune REIT's income available for distribution increased 16.9% year-on-year to HK\$642.4 million for FY2013. The DPU for the Reporting Year was 36.00 HK cents (2012: 32.35 HK cents), comprising an interim and final DPU of 18.00 HK cents each. The DPU was 11.3% higher than that of the previous year, notwithstanding an additional 142,962,000 new units issued from a private placement exercise during the Reporting Year. Based on HK\$6.215, the average closing unit price in Singapore and Hong Kong as at 31 December 2013, the FY2013 DPU represented a yield of 5.8%.

Fortune REIT made the largest acquisition since inception

Fortune Kingswood presented an opportunity for Fortune REIT to acquire the largest shopping centre in the Yuen Long district and thus enjoy the robust growth in demand for retail space in the northwest New Territories. Strategically located in the center of the Tin Shui Wai residential area, Fortune Kingswood currently serves a catchment population of approximately 288,000, hotel residents of the 1,102-rooms Harbour Plaza Resort City, as well as visitors from Mainland China due to its close proximity to Mainland China's border. According to the Planning Department of the Hong Kong Government, the Yuen Long district including the Tin Shui Wai area is expected to have the highest population growth in Hong Kong for the period between 2011 and 2021. In addition, Fortune Kingswood is also expected to benefit from the enhanced infrastructure linkage between Tin Shui Wai and the Mainland China's border as well as other parts of Hong Kong.

Fortune Kingswood fits well into the Manager's investment strategy of owning strategically-located retail assets with a large captive catchment, high occupancy rate and mid-to-long term asset enhancement potential. The property has increased Fortune REIT's portfolio valuation by 25.9% to HK\$29,338 million (based on the valuation of all the properties as at 31 December 2013). Fortune REIT's total gross rentable area has also increased by 27.2% to 3.11 million Sq.ft..

Disciplined Capital Management

The Manager strives to achieve an optimal debt/equity structure to maximize distribution while maintaining sufficient financial flexibility to fund acquisitions and AELs. Consistent with such a capital management strategy, an equity private placement exercise was successfully completed on 6 August 2013 – raising gross proceeds of HK\$975 million through the issuance of 142,962,000 new units at HK\$6.82 per unit to partly finance the acquisition of Fortune Kingswood. The private placement received strong participation from new and existing institutional investors. Separately, loan facilities of HK\$5,025 million, in the form of 3.5-year and 5-year term loans, were put in place to fund the balance of the acquisition cost at a competitive average interest margin of 148 basis points over HIBOR. This transaction has demonstrated Fortune REIT's outstanding ability to access the capital markets and leverage on favourable debt market conditions as opportunities arise.

Subsequent to the acquisition, the total committed loan facilities have increased to HK\$10,223 million as at 31 December 2013. Fortune REIT closed the Reporting Year with a gearing ratio and an aggregate leverage of 32.7% (31 December 2012: 23.4%), a 2.8 years of weighted average term to maturity of debt, and an average all-in cost of debt of 2.59% (31 December 2012: 2.78%). The gross liability, as a percentage of gross assets, of Fortune REIT rose to 37.0% as at 31 December 2013 (31 December 2012: 28.1%). The net current liabilities as at 31 December 2013 was HK\$1,048.0 million, the majority of which came from a revolving credit facility drawn down in previous year. There is an option to roll over this revolving credit facility up to its maturity in 2016.

Fortune REIT had obtained both secured and unsecured loan facilities. The former are secured over Fortune REIT's 15 investment properties, which carried an aggregate fair value of HK\$27,135 million as at 31 December 2013. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,158.2 million as at 31 December 2013, comprising committed undrawn facilities of HK\$300 million and cash on hand of HK\$858.2 million. Fortune REIT possesses sufficient financial resources to satisfy its financial commitments and working capital requirements.

As the interest cost of new facilities obtained during the Reporting Year was on a floating basis, Fortune REIT's overall debt hedged to fixed rates was reduced to about 37% as at 31 December 2013. The Manager will continue to monitor the interest rate movement closely and may, depending on market conditions, consider putting in place additional hedging arrangements.

Net asset value per unit amounted to HK\$10.26 as at 31 December 2013, up 16.5% from HK\$8.81 as at the end of 2012, mainly as a result of the increase in valuation of investment properties.

Portfolio Valuation

As at 31 December 2013, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$29,338 million by Jones Lang LaSalle Limited ("JLL"). This represents an increase of 45.2% and 32.2% respectively from the valuation of HK\$20,208 million as at 31 December 2012, and HK\$22,188 million as at 30 June 2013. As the capitalization rate adopted remains largely unchanged, the increase in valuation was attributed to an overall improvement in asset performance and the addition of Fortune Kingswood. The higher valuation has resulted in a revaluation gain of HK\$3,088.7 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 2013, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.11 million Sq.ft. of retail space and 2,606 car parking lots.

Property	Gross Rentable Area (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	6,253	99.2%	653
Fortune Kingswood	665,244	6,028	99.0%	622
Ma On Shan Plaza	310,084	4,342	98.5%	290
Metro Town	180,822	2,726	100.0%	74
Fortune Metropolis	332,168	2,059	97.8%	179
Belvedere Square	276,862	1,693	94.5%	329
Waldorf Avenue	80,842	1,435	100.0%	73
Caribbean Square	63,018	875	100.0%	117
Provident Square	180,238	856	99.9%	N.A
Jubilee Square	170,616	768	100.0%	97
Smartland	123,544	599	99.3%	67
Tsing Yi Square	78,836	524	100.0%	27
Nob Hill Square	91,779	406	99.1%	43
Hampton Loft	74,734	250	100.0%	35
Centre de Laguna	43,000	245	100.0%	N.A
Lido Avenue	9,836	169	100.0%	N.A
Rhine Avenue	14,604	110	100.0%	N.A
Total / Overall average	3,110,696	29,338	98.7%	2,606

OPERATIONS REVIEW

Fortune REIT's portfolio of private housing estate retail properties remained buoyant despite the moderation in overall retail sales in Hong Kong. The Manager continued to adopt a proactive leasing strategy, leading to higher passing rents across all of Fortune REIT's properties, as well as an improved portfolio occupancy of 98.7% as at 31 December 2013 (31 December 2012: 97.7%). Rental reversion of 20.4% was recorded for renewals during the Reporting Year, following the strong reversion momentum from the previous year despite leases in FY2013 being reverted from a much higher base. The portfolio's passing rent stood at HK\$33.5 per Sq.ft. as at 31 December 2013. Excluding Fortune Kingswood, passing rent for the original portfolio has improved 9.4% year-on-year.

Thanks to the proactive leasing strategies adopted by the Manager and a seamless integration into Fortune REIT's portfolio, Fortune Kingswood has already seen some operational improvements within 3 months after its acquisition in October 2013. The occupancy rate as at 31 December 2013 has notably improved to 99.0% when compared with its 95.5% occupancy rate as at 30 June 2013.

Fortune REIT has enlarged and diversified its portfolio during the Reporting Year with the acquisition of Fortune Kingswood, increasing its tenant base to 1,376 tenants across 17 assets. Collectively, the top ten tenants contributed approximately 26.5% of the portfolio's gross rental income, and occupied approximately 28.4% 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 Fortune REIT's resilience characteristics across many business 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.

Reaping Benefits From Asset Enhancement Initiatives

On the asset enhancement front, we successfully completed asset enhancement projects at Fortune City One ("FCO"), Ma On Shan Plaza and Jubilee Square. All have outperformed our target return on investment ("ROI") and have begun to contribute positively to portfolio growth.

The renovation of Fortune City One Market ("FCO Market"), the final phase of FCO's AEs, was completed in October 2013. Occupancy of FCO Market improved significantly to almost 100% from 75% previously. The layout of the market has been improved and the wet market now offers a greater variety of trades. The HK\$20 million AEs have achieved a ROI of more than 25% and marked the successful debut of our first-ever wet market AEs. The completion of AEs at FCO Market underpinned the overall success of AEs at FCO – Fortune REIT's most scalable AEs to date. With a total investment of HK\$150 million, FCO has successfully been upgraded with a modern ambiance and enriched retail offerings. We are confident that FCO will continue to be an important growth driver for Fortune REIT.

At Jubilee Square, the renovation of the three floors was completed in June 2013. The HK\$15 million AEs project has yielded a ROI of more than 25%. The customer service counter has been refreshed and some higher paying new tenants have been introduced to enrich shoppers' experience at Jubilee Square. The NPI of Jubilee Square for the Reporting Year was boosted significantly by 57.4% as a result.

The HK\$15 million AEs at Ma On Shan Plaza has also been completed with encouraging results in December 2013. The works involved recovering space from an anchor tenant to optimise the use of space on the third floor. About 12,000 Sq.ft. has been transformed into higher yielding prime retail space with the introduction of new retail and F&B tenants. The total monthly rental of the entire renovated zone of 59,000 Sq.ft. has improved by more than 70% and thus provided a spectacular ROI of 60%.

In addition to the successful completion of the above projects, the Manager plans to embark on the next major AEs at Belvedere Square in 2014. Phase 3 of Belvedere Square, with a GRA of approximately 133,750 Sq.ft., will be fully upgraded to offer an enhanced shopping ambiance and therefore is expected to attract more shoppers and retailers. The planned CAPEX is approximately HK\$80 million and the target return on investment is 15%.

OUTLOOK

Hong Kong's economy grew moderately in the first three quarters of 2013, with GDP up by 3.0% year-on-year. The domestic sector has held firm with private consumption expenditure rising by 2.8% year-on-year for the same period. This positive aspect was underpinned by favourable employment conditions and household income. The total value of retail sales in Hong Kong recorded a growth of 11.6% for the period from January to November 2013.

As there could be continuing pressure in the coming year on certain costs such as rising wages and electricity costs, the Manager will closely monitor the operating expenses. As part of Fortune REIT's green policy, measures such as energy-saving initiatives will continue to be adopted to help mitigate the impact of higher electricity tariffs.

Despite good signs of recovery, the global economic environment remains fragile and uncertain. Notwithstanding these uncertainties, the Manager is confident that with Fortune REIT's robust retail portfolio in Hong Kong and healthy financial position, it will continue to provide a strong foundation to deliver stable returns to investors.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2013, the total number of issued units of Fortune REIT was 1,858,891,124. As compared with the position as at 31 December 2012, a total of 161,065,146 new units were issued during the Reporting Year in the following manner:

- On 3 January 2013, 2,399,436 new units were issued to the Manager at the price of HK\$6.3684 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$15.3 million payable by Fortune REIT for the period from 1 October 2012 to 31 December 2012.
- On 2 April 2013, 2,195,067 new units were issued to the Manager at the price of HK\$6.8096 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$14.9 million payable by Fortune REIT for the period from 1 January 2013 to 31 March 2013.
- On 2 July 2013, 2,310,051 new units were issued to the Manager at the price of HK\$7.1840 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$16.6 million payable by Fortune REIT for the period from 1 April 2013 to 30 June 2013.
- On 6 August 2013, 142,962,000 new units were issued at the price of HK\$6.8200 per unit pursuant to the unit placement. The net proceeds were approximately HK\$947 million from the unit placement as set out in the announcement dated 30 July 2013.

- On 4 October 2013, 2,622,346 new units were issued to the Manager at the price of HK\$6.3980 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$16.8 million payable by Fortune REIT for the period from 1 July 2013 to 30 September 2013.
- On 9 October 2013, 8,576,246 new units were issued to the Manager at the price of HK\$6.8200 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's acquisition fee of approximately HK\$58.49 million payable by Fortune REIT for the acquisition of Fortune Kingswood.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 6,120,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of unitholders will be closed on Tuesday, 11 February 2014, 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 Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 10 February 2014. The payment of final distribution will be made to unitholders on Friday, 28 February 2014.

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 2013.

ISSUANCE OF ANNUAL REPORT 2013

The 2013 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2014.

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

Hong Kong, 24 January 2014

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Revenue	5	1,317,463	1,113,696
Property operating expenses		<u>(389,132)</u>	<u>(325,421)</u>
Net property income		928,331	788,275
Manager's base fee		(70,505)	(57,947)
Foreign currency exchange gain		92	205
Interest income		4,465	6,011
Trust expenses	6	(107,127)	(30,619)
Change in fair value of investment properties		3,088,725	1,796,263
Change in fair value of derivative financial instruments		114,803	(4,613)
Gain on disposal of investment properties		897	-
Borrowing costs	7	<u>(177,761)</u>	<u>(147,118)</u>
Profit before taxation and transactions with unitholders	8	3,781,920	2,350,457
Income tax expense	9	<u>(132,516)</u>	<u>(112,078)</u>
Profit for the year, before transactions with Unitholders		3,649,404	2,238,379
Distributions to unitholders		<u>(642,389)</u>	<u>(549,462)</u>
Profit for the year, after transactions with unitholders		3,007,015	1,688,917
Other comprehensive income - item that may be reclassified subsequently to profit or loss			
Net gain/(loss) on derivative financial instruments under cash flow hedge		<u>35,293</u>	<u>(15,925)</u>
Total comprehensive income for the year		<u>3,042,308</u>	<u>1,672,992</u>
Income available for distribution to unitholders		<u>642,389</u>	<u>549,462</u>
Basic earnings per unit (HK cents)	10	<u>206.71</u>	<u>132.07</u>

Distribution Statement

For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Profit for the year, before transactions with unitholders		3,649,404	2,238,379
Adjustments:			
Manager's base fee		70,505	57,947
Acquisition fee		58,490	19,000
Change in fair value of investment properties		(3,088,725)	(1,796,263)
Change in fair value of derivative financial instruments		(114,803)	4,613
Gain on disposal of investment properties		(897)	-
Front end fees		23,929	18,184
Foreign currency exchange gain		(92)	(205)
Other non-tax deductible trust expenses		44,578	7,807
Income available for distribution	(i)	642,389	549,462
Distribution to unitholders			
18.00 HK cents (2012: 15.82 HK cents) per unit for the six months ended 30 June	(ii)	306,965	268,327
18.00 HK cents (2012: 16.53 HK cents) per unit for the six months ended 31 December	(iii)	335,424	281,135
Income available for distribution		642,389	549,462
Distribution per unit (HK cents)		36.00	32.35

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 18.00 HK cents for the six months ended 30 June 2013 (six months ended 30 June 2012: 15.82 HK cents) is calculated based on the income available for distribution for the period of HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) over 1,704,730,532 units (30 June 2012: 1,695,337,503 units), representing issued units as at 30 June 2013 of 1,702,420,481 units (30 June 2012: 1,692,187,125 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 2013 of 2,310,051 units (second quarter of 2012: 3,150,378 units). The distribution amounting HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) was paid on 29 August 2013 (six months ended 30 June 2012: 29 August 2012).

- (iii) The distribution per unit of 18.00 HK cents for the six months ended 31 December 2013 (six months ended 31 December 2012: 16.53 HK cents) is calculated based on the income available for distribution for the period of HK\$335.4 million (six months ended 31 December 2012: HK\$281.1 million) over 1,862,533,814 units (31 December 2012: 1,700,225,414 units), representing issued units as at 31 December 2013 of 1,858,891,124 units (31 December 2012: 1,697,825,978 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 2013 of 3,642,690 units (fourth quarter of 2012: 2,399,436 units). The distribution amounting to HK\$335.4 million (six months ended 31 December 2012: HK\$281.1 million) will be paid on 28 February 2014 (six months ended 31 December 2012: 28 February 2013).

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	29,338,000	20,208,000
Derivative financial instruments		66,906	-
Total non-current assets		<u>29,404,906</u>	<u>20,208,000</u>
Current assets			
Trade and other receivables	12	67,093	55,245
Bank balances and cash		858,175	578,022
Total current assets		<u>925,268</u>	<u>633,267</u>
Total assets		<u>30,330,174</u>	<u>20,841,267</u>
Non-current liabilities			
Derivative financial instruments		40,799	145,357
Borrowings	13	8,860,372	3,878,815
Deferred tax liabilities		346,377	192,886
Total non-current liabilities		<u>9,247,548</u>	<u>4,217,058</u>
Current liabilities			
Trade and other payables	14	540,665	410,827
Borrowings	13	970,000	940,000
Derivative financial instruments		21,368	-
Distribution payable		335,424	281,135
Provision for taxation		105,842	14,538
Total current liabilities		<u>1,973,299</u>	<u>1,646,500</u>
Total liabilities, excluding net assets attributable to unitholders		<u>11,220,847</u>	<u>5,863,558</u>
Net assets attributable to unitholders		<u>19,109,327</u>	<u>14,977,709</u>
Units in issue and to be issued ('000)	15	<u>1,862,534</u>	<u>1,700,225</u>
Net asset value per unit (HK\$) attributable to unitholders	16	<u>10.26</u>	<u>8.81</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) 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 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 consolidated financial statements have been prepared under the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in these consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012 except as described below.

In the current year, the Group has applied the following new and revised IFRS that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

Amendments to IFRS	Annual Improvement to IFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements

IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (revised 2011)	Employee Benefits
IAS 27 (revised 2011)	Separate Financial Statements
IAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (revised 2011) *Separate Financial Statements* and IAS 28 (revised 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (revised 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards on the Group is set out below.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The application of these standards did not have significant impact on amounts reported in the financial statements.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the financial statements.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

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* have been extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments has been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

IFRS 9	Financial Instruments ³
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ¹
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IAS 36	Recoverable Amount Disclosure for Non-Financial Assets ¹
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
IFRIC 21	Levies ¹
Amendment to IAS 19	Defined Benefit Plans: Employee Contribution ²
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ⁴

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

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

³Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

⁴Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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) 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 Manager, in order to allocate resources to segments and to assess their performance.

The Group owns 17 (31 December 2012: 16) properties as at 31 December 2013 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

	2013 HK\$'000	2012 HK\$'000
Base rental	950,715	808,339
Charge-out collections	247,311	208,820
Other rental	116,051	94,426
Other income	3,386	2,111
	<u>1,317,463</u>	<u>1,113,696</u>

(6) Trust Expenses

	2013 HK\$'000	2012 HK\$'000
Trustee's fee	8,033	6,592
Acquisition fee	58,490	19,000
Expenses for acquisition	36,545	1,215
Other charges	4,059	3,812
	<u>107,127</u>	<u>30,619</u>

(7) Borrowing costs

	2013 HK\$'000	2012 HK\$'000
Interest expense on		
- term loans	81,269	60,054
- revolving loans	10,856	11,082
Equalisation of interest expense through interest rate swaps	59,980	56,240
Commitment fee	1,727	1,558
Amortisation of front end fees	23,929	18,184
	<u>177,761</u>	<u>147,118</u>

(8) Profit before taxation and transactions with unitholders

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

	2013 HK\$'000	2012 HK\$'000
Audit fee	2,901	1,757
Fee to internal auditor	330	330
Valuation fees (paid to principal valuer)	777	303
	<u>777</u>	<u>303</u>

(9) Income tax expense

	2013 HK\$'000	2012 HK\$'000
Current tax:		
- Hong Kong	108,464	89,341
- Singapore	545	533
- Over provision in prior years	(2,596)	(615)
	<u>106,413</u>	<u>89,259</u>
Deferred taxation:		
- Current year	25,662	22,415
- Under provision in prior year	441	404
	<u>26,103</u>	<u>22,819</u>
	<u>132,516</u>	<u>112,078</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2012: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2012: 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 investment properties are not held under a business model whose objective is to consume substantially of the economic benefits embodied in the investment properties over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$3,649.4 million (2012: HK\$2,238.4 million) by the weighted average of 1,765,444,417 (2012: 1,694,841,887) 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>2013</i> <i>HK\$'000</i>	<i>2012</i> <i>HK\$'000</i>
Fair value at beginning of the year	20,208,000	16,388,000
During the year:		
Acquisition of investment properties	5,976,388	1,900,000
Stamp duty incurred in relation to acquisition	-	9,500
Capital expenditure incurred in upgrading investment properties	66,037	114,237
Disposal of investment properties	(1,150)	-
Change in fair value of investment properties	3,088,725	1,796,263
Fair value at end of the year	<u>29,338,000</u>	<u>20,208,000</u>

(12) Trade and other receivables

	<i>2013</i> <i>HK\$'000</i>	<i>2012</i> <i>HK\$'000</i>
Trade receivables	35,170	30,003
Other receivables and prepayments		
Security deposits	23,154	21,704
Other receivables	7,028	2,455
Prepayments	1,741	1,083
	<u>31,923</u>	<u>25,242</u>
	<u>67,093</u>	<u>55,245</u>

Aging analysis of the Group's trade receivables at the end of the reporting period is as follows:

	<i>2013</i> <i>HK\$'000</i>	<i>2012</i> <i>HK\$'000</i>
0 - 30 days	35,130	29,356
31 - 90 days	10	594
Over 90 days	30	53
	<u>35,170</u>	<u>30,003</u>

(13) Borrowings

	2013 HK\$'000	2012 HK\$'000
Secured term loans	7,334,253	3,930,000
Unsecured term loans	1,618,700	-
Secured revolving loans	970,000	940,000
Less: unamortised front end fees	(92,581)	(51,185)
	<u>9,830,372</u>	<u>4,818,815</u>
Carrying amount repayable:		
On demand or within one year	970,000	940,000
More than one year, but not more than two years	1,087,424	-
More than two years, but not more than five years	7,772,948	3,878,815
	<u>9,830,372</u>	<u>4,818,815</u>
Less: Amount due within one year shown under current liabilities	(970,000)	(940,000)
	<u>8,860,372</u>	<u>3,878,815</u>

(14) Trade and other payables

	2013 HK\$'000	2012 HK\$'000
Trade payables		
Tenants' deposits		
- Outside parties	383,324	287,244
- Related parties	11,096	7,416
Rental received in advance – Outside parties	17,101	14,762
	<u>411,521</u>	<u>309,422</u>
Other payables		
Trustee's fee	2,512	1,728
Other expenses		
- Outside parties	50,612	45,680
- Related parties	58,789	40,084
- Manager	5,782	4,328
Interest payable	6,494	5,901
Others	4,955	3,684
	<u>129,144</u>	<u>101,405</u>
	<u>540,665</u>	<u>410,827</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\$239.7 million (2012: HK\$181.4 million) as at 31 December 2013.

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2012	1,684,018	6,391,413
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 to 31 December 2012	2,399	15,280
Balance as at 1 January 2013	<u>1,700,225</u>	<u>6,468,360</u>
Issue of new units during the year:		
Unit placement	142,962	975,001
As payment of acquisition fee for the acquisition of Fortune Kingswood	8,576	58,490
As payment of Manager's base fee for the period from 1 January to 30 September 2013	7,128	48,321
Balance in issue as at 31 December 2013	<u>1,858,891</u>	<u>7,550,172</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2013	3,643	22,184
Balance as at 31 December 2013	<u>1,862,534</u>	<u>7,572,356</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\$19,109.3 million (2012: HK\$14,977.7 million) and the total number of 1,862,533,814 (2012: 1,700,225,414) 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 2013, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,048.0 million (2012: HK\$1,013.2 million).

As at 31 December 2013, the Group's total assets less current liabilities amounted to HK\$28,356.9 million (2012: HK\$19,194.8 million).