

GROWING



WITH

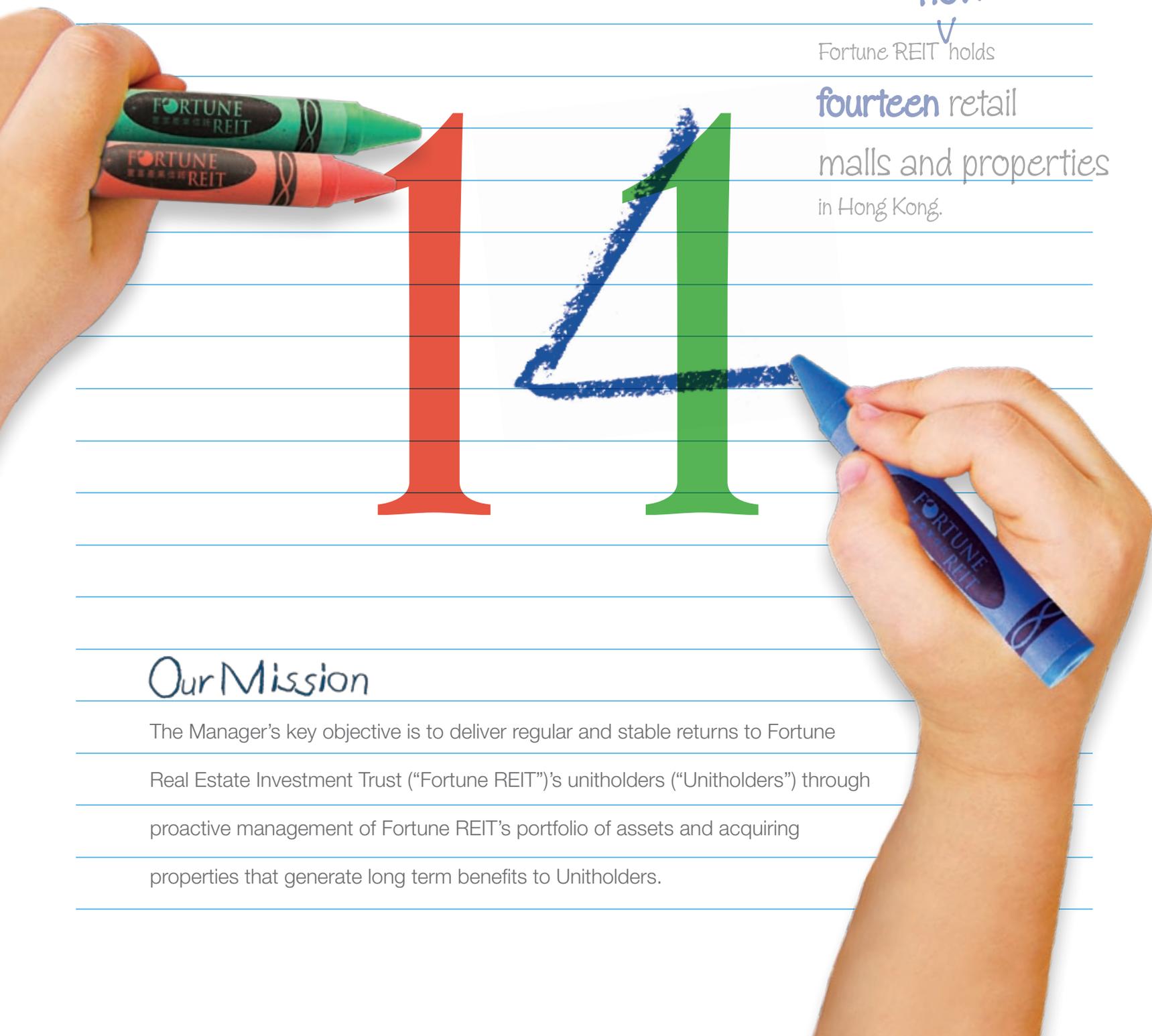
FORTUNE



置富產業信託 REIT



Annual Report 2009



now

Fortune REIT holds

fourteen retail  
malls and properties  
in Hong Kong.

## Our Mission

The Manager's key objective is to deliver regular and stable returns to Fortune Real Estate Investment Trust ("Fortune REIT")'s unitholders ("Unitholders") through proactive management of Fortune REIT's portfolio of assets and acquiring properties that generate long term benefits to Unitholders.

# About Fortune REIT

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 (Singapore) Limited (“ARASL” or the “Manager”), 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 (“SGX-ST”) on 12 August 2003.

## About the Manager

The Manager is a wholly-owned subsidiary of ARA Asset Management Limited (“ARA”), a real estate fund management company listed on the Mainboard of the SGX-ST, and an affiliate of the multinational conglomerate Cheung Kong Group.

ARA currently manages REITs listed in Singapore, Hong Kong and Malaysia with a diversified portfolio spanning the office, retail and industrial/office sectors; private funds investing in real estate and real estate-related securities in Asia; and provides real estate management services, including property management services and convention & exhibition services; and corporate finance advisory services. As at 31 December 2009, ARA’s total assets under management was approximately HK\$74.2 billion.

## Contents

<b>2</b>	Corporate Information
<b>3</b>	Event Calendar 2009
<b>5</b>	Financial Highlights
<b>7</b>	Chairman’s Report
<b>10</b>	Manager’s Report
<b>18</b>	Snapshots
<b>20</b>	Portfolio Summary
<b>23</b>	Fortune REIT’s Portfolio
<b>38</b>	Board of Directors
<b>42</b>	Management Team
<b>44</b>	Investor Relations
<b>45</b>	Corporate Governance Report
<b>59</b>	Report and Financial Statements
<b>119</b>	Unitholders’ Statistics
<b>123</b>	Additional Information



# Corporate Information

## Manager

ARA Asset Management (Singapore) Limited  
#16-02, Suntec Tower Four,  
6 Temasek Boulevard,  
Singapore 038986

 : +65 6835 9232

 : +65 6835 9672

## Directors of the Manager

CHIU Kwok Hung, Justin, *Chairman and Director*

LIM Hwee Chiang, John, *Director*

IP Tak Chuen, Edmond, *Director*

YEUNG, Eirene, *Director*

LIM Lee Meng, *Independent Director*

CHENG Mo Chi, Moses, *Independent Director*

SNG Sow-Mei (alias POON Sow Mei), *Independent Director*

MA Lai Chee, Gerald, *Alternate Director to IP Tak Chuen, Edmond*

## Audit Committee

LIM Lee Meng, *Chairman and Independent Director*

CHENG Mo Chi, Moses, *Independent Director*

SNG Sow-Mei (alias POON Sow Mei), *Independent Director*

## Company Secretary of the Manager

CHOO Yvonne

LIM Siew Choo, Sharon

## Trustee

HSBC Institutional Trust Services (Singapore) Limited

## Legal Adviser

Allen & Gledhill LLP

## Unit Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.

50 Raffles Place

Singapore Land Tower, #32-01

Singapore 048623

## Auditors

Deloitte & Touche LLP

Partner-in-charge: TOH Yew Kuan, Jeremy

Appointed on 16 August 2008

## Stock Exchange Quotation

BBG: FRT SP Equity

RIC: FORT.SI

## Website

[www.fortunereit.com](http://www.fortunereit.com)

[www.fortunereitmalls.com](http://www.fortunereitmalls.com)



# Event Calendar 2009

1  
21 Jan 2009  
Fortune REIT announced financial results for FY2008. Total revenue and distributable income rose 3.6% and 6.3% respectively over FY2007.

28 Jan 2009  
Ms. Justina Chiu was appointed as the Chief Operating Officer of the Manager.

2  
27 Feb 2009  
DPU of 18.51 Hong Kong cents was paid for 2H2008.

6  
30 Jun 2009  
Fortune REIT's portfolio of 11 properties was valued at HK\$8,900 million.

7  
28 Jul 2009  
Fortune REIT announced financial results for 1H2009. Total revenue and distributable income rose 8.2% and 7.1% respectively over 1H2008.

8  
24 Aug 2009  
Fortune REIT announced (i) proposed acquisition of 3 retail properties in Hong Kong; (ii) securing of debt facilities of up to HK\$3,100 million for 4 years; (iii) a fully underwritten and renounceable one-for-one rights issue to raise HK\$1,889 million.

9  
11 Sep 2009  
All 3 resolutions set out at the extraordinary general meeting were duly passed.

28 Aug 2009  
DPU of 19.60 Hong Kong cents was paid for 1H2009.

9  
17 Sep 2009  
Fortune REIT's 2008 annual report won 2 awards in the prestigious 2009 International Annual Report Competition.

22 Sep 2009  
Fortune REIT launched a revamped website at [www.fortunereit.com](http://www.fortunereit.com).

10  
15 Oct 2009  
Fortune REIT completed the acquisition of Metro Town, Caribbean Bazaar and Hampton Loft.

16 Oct 2009  
The rights Units of 824.9 million commenced trading on the SGX-ST.

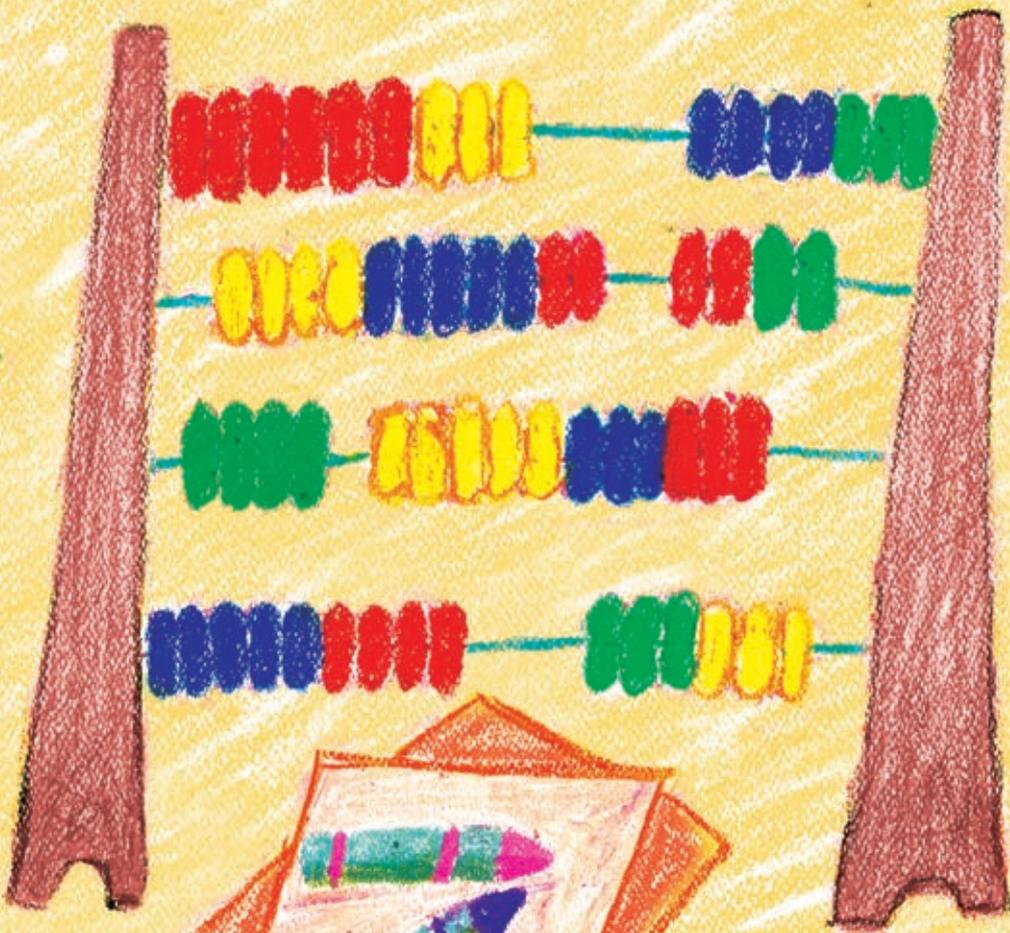
12  
31 Dec 2009  
Fortune REIT's portfolio of 14 properties was valued at HK\$11,500 million.

1  
26 Jan 2010  
Fortune REIT announced financial results for FY2009. Total revenue and distributable income rose 10.1% and 11.6% respectively over FY2008. 2H2009 DPU of 10.60 Hong Kong cents was paid on 26 February 2010.

To optimise

1 + 2

3



+

4

÷

x



# Financial Highlights

## Statement of comprehensive income for the financial year

	2009	2008	Variance
Revenue	HK\$701.4M	HK\$637.0M	10.1%
Net property income	HK\$494.7M	HK\$463.1M	6.8%
Income available for distribution	HK\$337.8M	HK\$302.9M	11.6%
Distribution per Unit ("DPU")	HK\$0.3020 <sup>1</sup>	HK\$0.3702	-

## Statement of financial position as at 31 December

	2009	2008	Variance
Investment properties	HK\$11,500.0M	HK\$8,602.0M	33.7%
Total assets	HK\$12,063.0M	HK\$8,882.4M	35.8%
Total liabilities	HK\$3,230.3M	HK\$2,726.0M	18.5%
Unitholder's equity	HK\$8,832.7M	HK\$6,156.4M	43.5%
Net asset value <sup>2</sup> per Unit	HK\$5.33	HK\$7.58	(29.7%)
Gearing (Debt-to-asset ratio) <sup>3</sup>	23.7%	26.4%	-
Units in issue <sup>4</sup>	1,661.6M	820.8M	102.4%

### Notes:

- 824.9 million of rights Units and 6.4 million of acquisition fee in Units were issued on 15 October 2009 and 16 October 2009 respectively. FY2009 DPU of 30.20 HK cents is the total sum of 19.60 HK cents for 1H2009 distribution based on 824.9 million Units plus 10.60 HK cents for 2H2009 distribution based on the income available for distribution from 1 July 2009 to 31 December 2009 divided by the enlarged number of Units in issue of 1,661.6 million.
- Adjusted net asset value per Unit ("NAV") based on net assets of the Group excluding hedging reserves.
- This excludes the front end fee and is calculated based on total debt to Deposited Property.
- This includes the rights Units of 824.9 million, the acquisition fee in Units of 6.4 million and Units issued to the Manager on 7 January 2010 and 9 January 2009 as payment of management fee for the periods from 1 October 2009 to 31 December 2009 and from 1 October 2008 to 31 December 2008 respectively.

## Solid performance in 2009

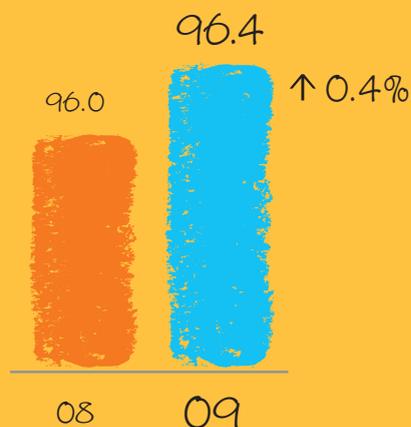
### Revenue

HK\$ (Million)



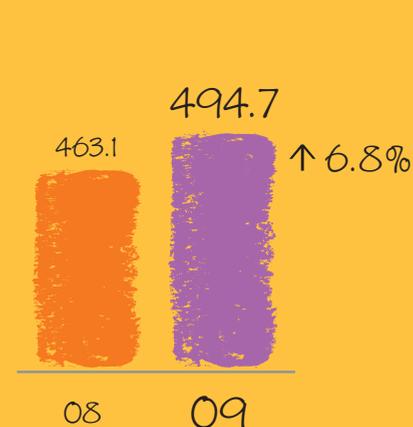
### Year-end occupancy

Percentage (%)



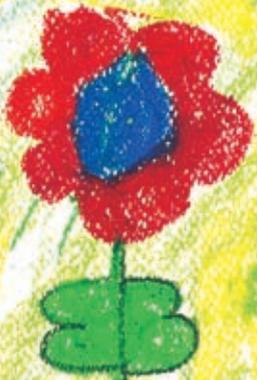
### Net property income

HK\$ (Million)



We are proud to  
announce ooo

~ ~ ~  
Ladies  
and  
Gentlemen  
~ ~ ~



# Chairman's Report

Fortune REIT has consistently demonstrated its ability to

**deliver sustainable growth** in distributable income since its listing in 2003.



# Chairman's Report



Chiu Kwok Hung, Justin  
Chairman

On behalf of the Board of Directors of ARA Asset Management (Singapore) Limited, the manager of Fortune REIT, I am pleased to report that a satisfactory performance was achieved by Fortune REIT for the year ended 31 December of 2009 ("FY2009" or "the Reporting Period").

## A year of achievements

With three major achievements, 2009 marked a fruitful year for Fortune REIT. First, our suburban retail portfolio was expanded through the acquisition of Metro Town, Caribbean Bazaar and Hampton Loft in Hong Kong. Second, our balance sheet was strengthened through a HK\$1,889 million rights issue recapitalisation exercise and the securing of refinancing for our HK\$2,350 million debt, nine months well ahead of expiry. Last, sustainable organic growth was delivered as we optimised rental returns from our existing portfolio.

## Solid financial results

2009 was a year characterised by dramatic swings in market sentiment. The impact of the global financial crisis continued to exert severe pressure on the economic markets in the first half, while towards the second half, economic confidence and optimism began to return. Despite the general softening of consumer confidence and retail sales as a result of market uncertainty, Fortune REIT managed to deliver another solid set of financial results for the Reporting Period. Net property income reached HK\$494.7 million, representing year-on-year growth of 6.8%. Correspondingly, income available for distribution for the year reached a record high of HK\$337.8 million, an 11.6% increase over last year. Distribution per Unit ("DPU") for FY2009 was 30.20 Hong Kong cents as compared with 37.02 Hong Kong cents for the previous year, a decrease caused by dilution following the rights issue.

## Robust asset performance

Fortune REIT has again proven its defensive and resilient nature amidst challenging market conditions. Portfolio occupancy climbed to 96.4% at the end of 2009, a new high since December 2005. Nine out of the fourteen properties achieved 100% occupancy, while our flagship property – City One Shatin Property – registered a record high occupancy of 98.2% since it was acquired in 2005. In addition, a healthy rental reversion of 4.2% was achieved for renewals in 2009.



## An important step ahead

In 2009, Fortune REIT successfully completed the acquisition of three new properties and a fully underwritten renounceable one-for-one rights issue, raising gross proceeds of approximately HK\$1,889 million. We also secured debt facilities of up to HK\$3,100 million, partly to finance our acquisitions and also for the refinancing of existing loans. This series of transactions have addressed our refinancing needs, improved trading liquidity and, at the same time, provided Fortune REIT with a stronger balance sheet going forward.

Following the acquisitions, our portfolio has increased to fourteen properties and total value has increased by more than 20%. We have now expanded our footprint in Hong Kong to three new growing suburban areas. In addition to being resilient and defensive assets, typical of suburban retail properties, we believe the new properties will also provide an important value creation opportunity over the longer term.

## Well-positioned for growth

Fortune REIT's portfolio was valued at HK\$11,500 million as at 31 December 2009. All of our fourteen properties recorded revaluation surpluses, reflecting the recovery of the retail market in Hong Kong and the improvement in Fortune REIT's asset performance. Amidst the tight

credit market during the year, Fortune REIT benefited from a prudent capital structure and a management strategy based upon conservative gearing, locked-in interest and long loan tenures. As at the end of 2009, our gearing ratio remained at a conservative 23.7%, with no refinancing risk until October 2013. With debt headroom of approximately HK\$2,090 million before reaching the regulatory gearing limit of 35%, Fortune REIT has ample acquisitive power to support future expansion.

## Strong emergence from financial turmoil

During the economic uncertainty over the past twelve months, we have witnessed the reshaping of Singapore's REIT landscape. While the capital management of many REITs has been affected, Fortune REIT has, in many ways, emerged from the financial turmoil stronger than before. First, the economic recovery and resilient suburban retail sector should support rental growth in the coming year. Second, the acquisition of three new assets is poised to provide Fortune REIT with added income stability in our portfolio. Last, given our strong balance sheet and fully met refinancing needs through till 2013, we are well-positioned to tap the recovering credit and capital markets for growth. Our strategy will continue to focus on organic growth and unlocking value through asset enhancement initiatives, whilst exercising prudence in acquisitions and capital management.

Fortune REIT's Unitholders can look forward to sustainable income in the coming year, while benefiting from the stability of a more diversified portfolio and a prudently geared capital structure.

## Appreciation

I wish to express my sincere appreciation to our Board members for their dedicated contribution and efforts in propelling the growth of Fortune REIT during this challenging but fruitful year. On behalf of the Board, I would also like to thank our staff, trustee, investors, tenants, shoppers and business partners for their continued support.

**Chiu Kwok Hung, Justin**  
*Chairman*

ARA Asset Management (Singapore) Limited  
As manager of Fortune REIT  
22 February 2010

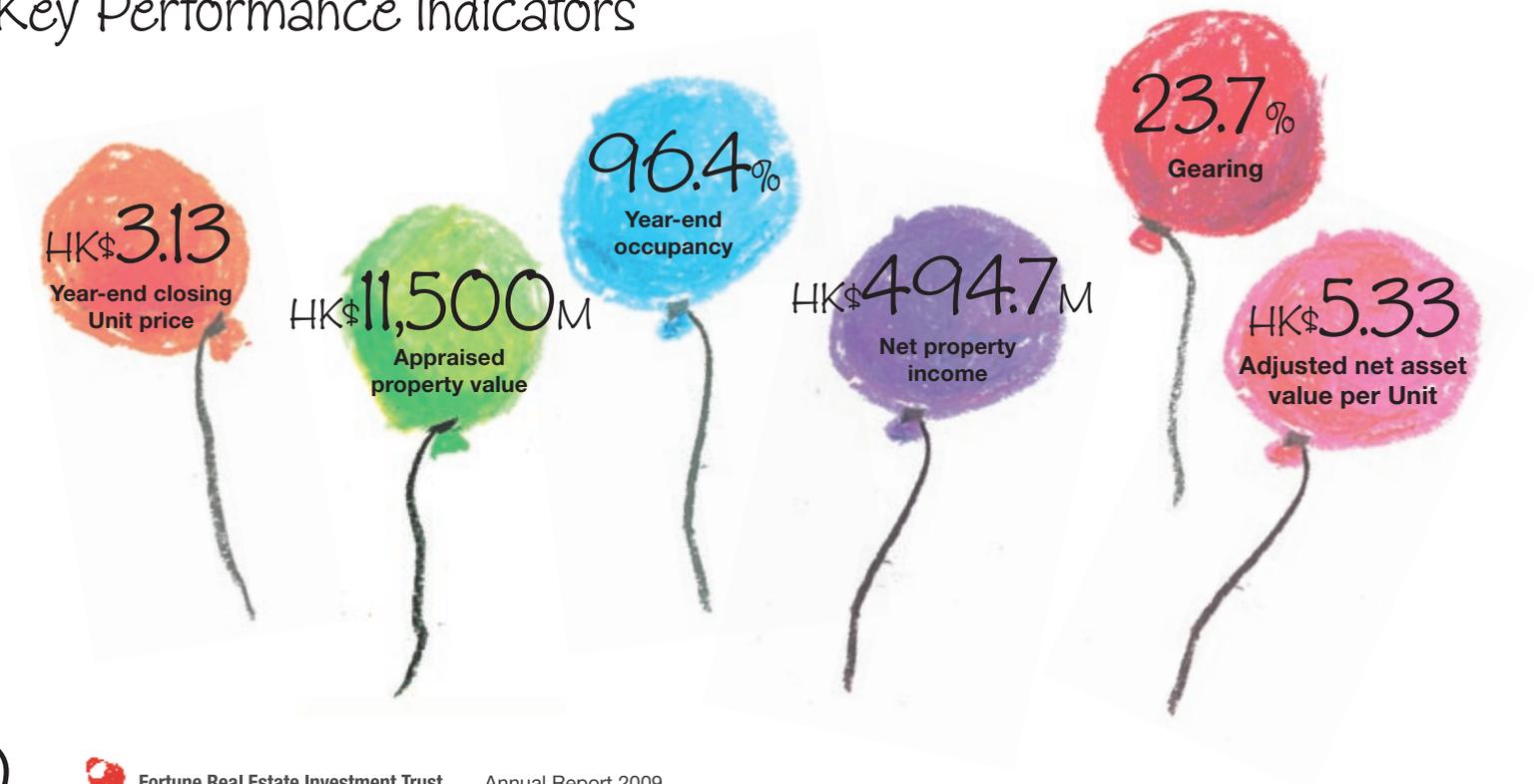


# Manager's Report



**Fortune REIT's portfolio** comprises fourteen properties, with gross rentable area totaling approximately 2.0 million sf.

## Key Performance Indicators





## Acquisition growth



On 15 October 2009, Fortune REIT successfully completed the acquisition of three retail properties in Hong Kong, namely Metro Town, Caribbean Bazaar and Hampton Loft, for a total purchase consideration of HK\$2,039 million<sup>1</sup>. This is in line with our acquisition growth strategy of seeking retail properties with high occupancy rates and long term growth potential. Fortune REIT's portfolio now comprises fourteen properties, with gross rentable area ("GRA") totaling approximately 2.0 million sf.

The three properties were valued by independent valuers Knight Frank Petty Limited and Savills Valuation and Professional Services Limited ("Savills") as at 30 June 2009 using the three valuation methods of income capitalisation, discounted cash flow and

direct comparison. Taking the lower of the two valuations, Metro Town, Caribbean Bazaar and Hampton Loft were valued at HK\$1,480 million, HK\$430 million and HK\$160 million respectively.

## Financial review

### Distribution

The strong underlying growth of rental income from existing properties, coupled with the income stream derived from the newly acquired malls from 16 October 2009 onwards, led to a 10.1% and 6.8% increase in Fortune REIT's total revenue and net property income respectively. For the twelve months ended 31 December 2009, total income available for distribution was HK\$337.8 million, representing an increase of 11.6% over the preceding year. DPU for FY2009 was HK\$0.3020<sup>2</sup>. Unitholders receiving distributions made by Fortune REIT out of net tax-

exempt income will not be liable for Singapore income tax on the distribution received. As at 31 December 2009, net assets attributable to Unitholders were HK\$8,832.7 million or HK\$5.33 per Unit<sup>3</sup>.

### Portfolio valuation

The valuation of Fortune REIT's fourteen retail properties were appraised at HK\$11,500 million by Savills as at 31 December 2009, representing an 4.8% increase in value from the HK\$10,970 million as at 30 June 2009. Comparing to 31 December 2008, the valuations for the eleven existing properties has increased by 8.6%. This can be attributed to the reduction in capitalisation rates, as well as the improvement in asset performance. We believe the decrease in capitalisation rates represents a reflection of the recovery of the property market in Hong Kong during the second half of 2009.

#### Notes:

1. Metro Town was acquired from subsidiaries of Cheung Kong (Holdings) Limited and Nan Fung Development Limited at a purchase consideration of HK\$1,452 million; Caribbean Bazaar was acquired from MTR Corporation Limited at a purchase consideration of HK\$428 million; Hampton Loft was acquired from a subsidiary of Cheung Kong (Holdings) Limited at a purchase consideration of HK\$159 million.
2. 824.9 million of rights Units and 6.4 million of acquisition fee in Units were issued on 15 October 2009 and 16 October 2009 respectively. DPU of FY2009 of 30.20 HK cents is the total sum of 19.60 HK cents for 1H2009 distribution based on 824.9 million Units plus 10.60 HK cents for 2H2009 distribution based on the income available for distribution from 1 July 2009 to 31 December 2009 divided by the enlarged number of Units in issue of 1,661.6 million.
3. Adjusted NAV per Unit based on the net assets of the Fortune REIT, excluding hedging reserves.



# Manager's Report



## Capital structure management



On 24 August 2009, Fortune REIT announced a fully underwritten renounceable one-for-one rights issue to raise gross proceeds of HK\$1,889 million<sup>1</sup> and the securing of new debt facilities of HK\$3,100 million. The new loan is for a term of 4 years through till 14 October 2013 at an interest margin of 200 basis points over Hong Kong Interbank Offer Rate. The HK\$3,100 million debt facilities comprise (i) HK\$2,350 million that will be used to refinance the existing term loan due to expire in June 2010; (ii) HK\$480 million that was used to partly finance the acquisition of the three new assets in 2009; and (iii) a revolving loan facility of HK\$270 million. Upon the refinancing of the existing term loan in June 2010, the new debt facilities will be secured over Fortune REIT's eleven existing assets,

with the three newly acquired assets unencumbered.

The Manager continued its prudent approach in debt management and maintained a low gearing of 23.7%<sup>2</sup> based on a total borrowings of HK\$2,865 million and total assets of HK\$12,063 million as at 31 December 2009. With a debt headroom of HK\$2,090 million, along with the three new assets that will become unencumbered in June 2010, Fortune REIT will have ample financial flexibility to react quickly to new acquisition opportunities forwarding the future.

Total borrowing costs stood at HK\$88.2 million for the Reporting Period, a decrease of 12.5% from the previous year, mainly due to the current low interest rate environment. The weighted average borrowing cost was 3.6% for 2009. We will continue to manage our interest rate

exposure by using plain vanilla swaps and will target to fix at least half of our total borrowings in 2010<sup>3</sup>. Fortune REIT's exposure to derivatives is elaborated in the financial statement. The net fair value derivative represented 0.3% of the net assets of Fortune REIT as at 31 December 2009. Through managing the uncertainty of interest rates, we hope to provide more income stability to Unitholders.

## Improved Unit price and trading liquidity

Fortune REIT's Unit price improved by more than 57% during the Reporting Period to close at HK\$3.13 on 31 December 2009. The total market capitalisation of Fortune REIT has increased more than three times to HK\$5,200 million as at 31 December 2009 from HK\$1,630 million a year ago, while trading liquidity has more than doubled to a daily average of 1.9 million Units.

### Notes:

1. Out of the net proceeds of HK\$1,802.4 million from the rights issue, HK\$1,671.8 million has been used towards part financing for the acquisition of the three new properties as well as debt related costs. The balance of about HK\$130.6 million would be used for working capital, general corporate purposes and asset enhancement initiatives.
2. According to the revised Property Fund Guidelines from the Monetary Authority of Singapore ("MAS"), "Borrowing Limit" has been replaced with "Aggregate Leverage Limit" which comprises actual borrowings and deferred payments. Also, the maximum aggregate leverage limit allowed for a REIT is 35%. It can go up to 60% if a credit rating is obtained and disclosed to the public. As at 31 December 2009, there was no deferred payment incurred for Fortune REIT.
3. Fortune REIT's exposure to derivatives is elaborated in the financial statements. The net fair value derivative represented 0.3% of the net assets of Fortune REIT as at 31 December 2009.



## Portfolio overview

### Operating environment

Following the devastating onset of the global financial crisis in 2008, uncertainty in the global economy continued to linger into the beginning of 2009. In Hong Kong, private consumption fell for four consecutive quarters from the third quarter of 2008 and only stabilised in the second half of 2009. According to Savills, shopping centres in fringe core areas targeting the midmarket were the hardest hit, while those in traditional residential areas catering to basic necessities proved to be better insulated from the economic downturn. For the six months from October 2008, retail rentals on Hong Kong Island dropped by 10.6% as compared with a more moderate drop of 4.0% in the New Territories.

With a strong rebound in the second quarter of 2009, there were signs of recovery in the Hong Kong economy and the GDP decline was narrowed to -2.4% year-on-year in the third quarter. Benefiting from more stable employment conditions, a rebound in the asset

markets and the boost from various rounds of relief measures launched by the Government, local consumer sentiment has significantly improved. The Government has subsequently revised the whole year GDP forecast to a contraction of 3.3%, as compared to their previous forecast of a 3.5-4.5% contraction.

Hong Kong retail sales and shopping centre rents gradually rebounded from mid-2009. In particular, the value of total retail sales in December 2009 increased by 16.0% over that of December 2008, while shopping centre rents in Kowloon and the New Territories surged 9.1% and 7.0% respectively from their trough in second quarter of 2009.

Looking ahead, as key indicators point towards recovery in the global economy, Fortune REIT should continue to benefit from improving market confidence in Hong Kong.

### Robust asset performance

In response to the possibility of continued economic uncertainty, our main



focus in 2009 was to maintain high occupancy rates across our portfolio and to commence lease negotiations well in advance in order to ensure income stability for our Unitholders. Portfolio occupancy improved to 96.4% as at 31 December 2009, the highest level on record since the end of 2005. Nine out of the fourteen malls, including the three newly acquired properties, achieved 100% occupancy. Although rental reversion slowed as compared to previous years, rental rates for both lease renewals and new lettings registered a healthy increment. During the Reporting Period, a GRA of about 390,000 sf was renewed with an average reversion of 4.2%, while about 85,000 sf of expiring spaces were leased to new tenants at an average rental increment of 11.6%.

Based on the gross rental for the month of December 2009, 41.3% of Fortune REIT's portfolio is due to expire in 2010. The Manager will continue to dedicate efforts into maintaining high occupancy rates in order to uphold a stable income for Fortune REIT.



# Manager's Report



## **Enhanced portfolio diversification**

Following the new acquisitions in 2009, the contribution from the largest property, City One Shatin Property has been reduced. Such greater diversification means that Unitholders can enjoy a more stable income stream, with less dependence on any single property.

Fortune REIT's portfolio has a diverse tenant base, with a total of 1,015 tenants as at 31 December 2009. The top ten tenants contributed to approximately 23.3% of the total portfolio gross rental income for 2009 and occupied approximately 21.3% of total GRA. No single tenant represented more than 8.5% of the portfolio's gross rental income. Our tenants originate from diverse trade sectors and include established chain stores such as Park'N Shop, Maxim's, 7-Eleven and Watsons. Part of the Manager's ongoing strategy is to increase footfall and patronage at our malls by enhancing and diversifying our tenant portfolios. This is done in line with planned tenancy expiries, as well as asset enhancement projects.

## **Advertising and promotion initiatives**

As part of our advertising and promotion initiatives, we have launched a spending incentive programme, which included coupon and gift redemptions. We are pleased to see the success of this initiative, with mall footfall increasing during the redemption period. These initiatives are tied to our leasing strategies and have enhanced the interest and confidence of tenants in our shopping malls.

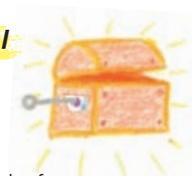
Infra-red footfall counting systems have been installed in some of our malls. The footfall statistics and patterns will provide valuable data to assist the Manager in evaluating the results of promotion events, exploring future tenant repositioning opportunities and determining future leasing strategies.

In addition, we have created another channel to promote our properties by launching a website ([www.fortunereitmalls.com](http://www.fortunereitmalls.com)) which is specifically designed to provide leasing and marketing information. The new shopping

mall website is poised to complement our leasing efforts and increase marketing exposure of our portfolio.

## **Unlocking asset potential**

A series of renovation programmes are planned for City One Shatin Property, which is comprised of City One Plaza ("COP") and Ngan Shing Commercial Center ("NSCC"). Prospective projects include enhancing the shopping ambiance and tenants repositioning. The asset enhancement initiatives at COP and NSCC will be geared towards improving shopper circulation and optimizing trade mix, thereby increasing rental revenue. The entire renovation works will be well-planned and divided into phases so as to minimise disruption to the existing rental stream. Works will be executed over several phases starting in mid-2010 and are expected to be completed in phases from the end of 2010. The planned capital expenditure of about HK\$100 million will be financed by proceeds from the rights issue.





### **Cost management and energy efficiency**

Total property operating expenses for FY2009 totaled HK\$191.4 million, an increase of 19.9% year-on-year. This was due mainly to the additional expenses from the three newly acquired assets starting from 16 October 2009 onwards, as well as higher maintenance and marketing expenses for the existing portfolio. The cost-to-revenue ratio for the Reporting Period was 27.2%.

During the year, we have focused in improving energy efficiency, as well as upgrading various facilities in our malls. Replacement of aged electrical and mechanical systems has been carried out to ensure more efficient building management. One of the major projects in 2009 was the chiller replacement in City One Shatin Property which successfully brought about a 20% saving in utilities. In addition, two sets of chiller plants serving the first and second floors of The Household Center have been connected to maximise efficiency and reduce energy consumption, resulting in a 14% utilities saving for the year.

At The Metropolis Mall, the food court has been upgraded to provide a better dining environment and this was very well received by our tenants and customers. In addition, we have also upgraded the washroom facilities and added nursery facilities at The Metropolis Mall.

### **Sustainable growth**

Fortune REIT's performance in 2009 shows that our portfolio of suburban retail malls – which primarily serves the daily necessity needs of the neighbourhood – provides highly defensive cashflow, even amidst volatility in the general economy. We strive to ensure that our properties offer the appropriate tenant diversity and provide a comfortable and safe shopping environment for our patrons, whilst controlling operating and capital expenditures at an optimal level. In 2010, series of exciting asset enhancement programmes will be implemented at City One Shatin Property. The asset enhancement works are expected to rejuvenate the largest property in our portfolio, driving further income growth.

Looking ahead into 2010, we foresee that sustainable economic growth will be achieved and consumption will slowly improve. As wider economic recovery occurs, the real estate market will also benefit and grow. We believe that through active, comprehensive and highly effective management, Fortune REIT will further provide satisfactory returns to Unitholders.

**Chiu Yu, Justina**  
*Chief Operating Officer*

ARA Asset Management (Singapore) Limited  
As manager of Fortune REIT  
22 February 2010



# Manager's Report

## Portfolio key statistics as at 31 December 2009

Gross rentable area	1,988,352 sf
Car park lots	1,660
Number of tenants	1,015
Market valuation <sup>1</sup>	HK\$11,500 million
Actual occupancy	96.4%
Gross revenue <sup>2</sup>	HK\$701.4 million
Net property income	HK\$494.7 million

Notes:

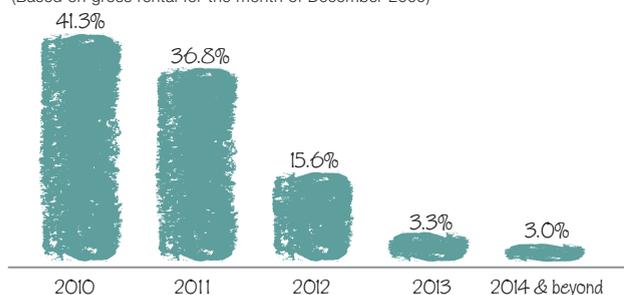
1. Valued by Savills as at 31 December 2009.
2. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

(For the month of December 2009)

Portfolio top 10 tenants	Trade sector	% of total gross rental income	% of total gross rentable area
1 Park'N Shop	 Supermarkets	8.5%	11.1%
2 Bank of China (Hong Kong) Limited	 Banking & Real Estate Services	3.0%	1.2%
3 7-Eleven	 Services & Education	1.9%	0.7%
4 Cheung Kong Property Development Limited	 Banking & Real Estate Services	1.8%	2.5%
5 Fairwood Fast Food	 Food & Beverages	1.5%	1.0%
6 Midland Realty	 Banking & Real Estate Services	1.4%	0.4%
7 Watsons	 Services & Education	1.4%	1.0%
8 Maxim's Chinese Restaurant	 Food & Beverages	1.4%	2.5%
9 The Bank of East Asia	 Banking & Real Estate Services	1.2%	0.6%
10 Ricacorp Properties Limited	 Banking & Real Estate Services	1.2%	0.3%
<b>Total</b>		<b>23.3%</b>	<b>21.3%</b>

## Portfolio lease expiry profile

(Based on gross rental for the month of December 2009)



## Breakdown of portfolio property operating expenses

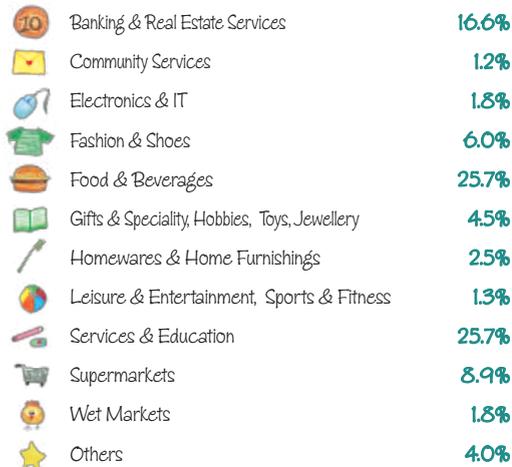
(For the financial year ended 31 December 2009)



## Portfolio tenant trade mix analysis

(Based on gross rental for the month of December 2009)

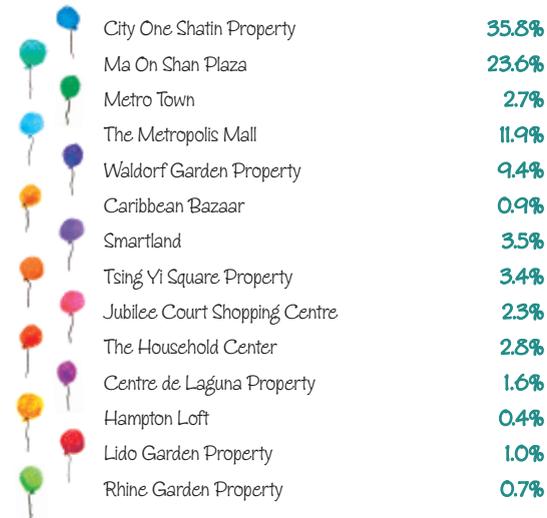
Gross rental includes rental income and license income due from tenancies but excludes turnover rent.



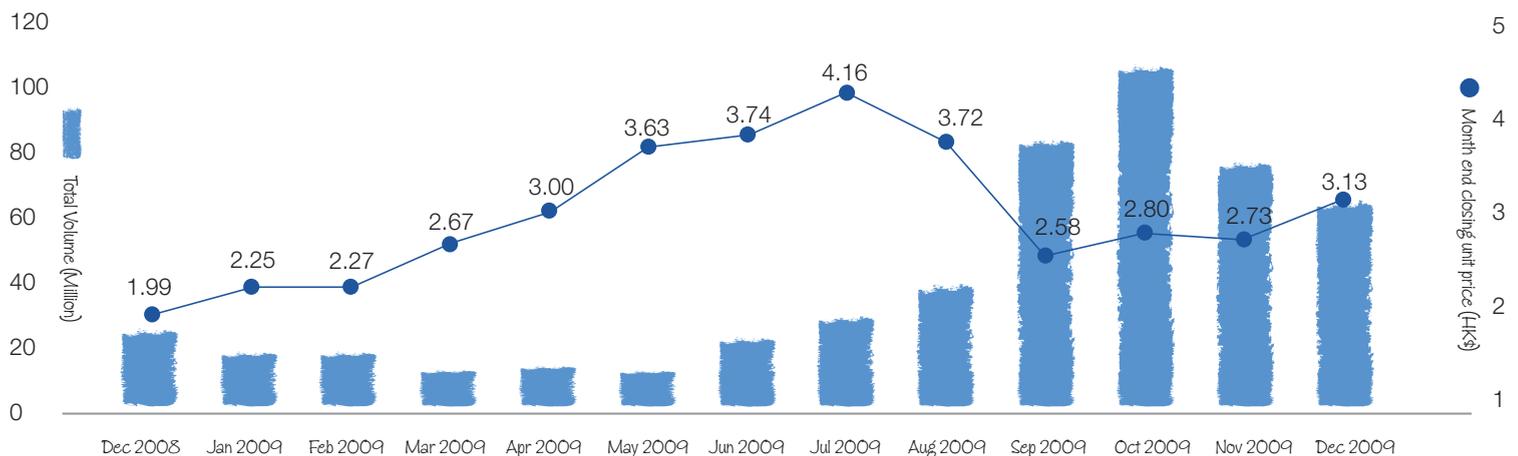
## Portfolio analysis by net property income

(For the financial year ended 31 December 2009)

Metro Town, Caribbean Bazaar and Hampton Loft were acquired on 15 October 2009. Net property income represents the period from 16 October 2009 to 31 December 2009.



## Monthly Trading Performance in 2009



## Trading Statistics

Opening Unit Price (2 January 2009) HK\$2.05  
 Closing Unit Price (31 December 2009) HK\$3.13  
 Intraday High (27 July 2009) HK\$4.20  
 Intraday Low (5 Feb 2009) HK\$2.02

Total Volume Traded 470,428,000 Units  
 Daily Average Trading Volume 1,866,778 Units



# Snapshots





# Portfolio Summary





(As at 31 December 2009)

# Portfolio Summary

	Location	Gross rentable area (sf)	Number of tenants	Occupancy rate	Number of car parks	Valuation (HK\$ million)	FY 2009 net property income (HK\$ million)	
1.	City One Shatin Property	Shatin	414,469	256	98.2%	658	3,548	177.0
2.	Ma On Shan Plaza	Shatin	310,084	139	100.0%	290	1,974	117.1
3.	Metro Town <b>NEW!</b>	Tseung Kwan O	180,822	108	100.0%	74	1,544	13.3
4.	The Metropolis Mall	Hung Hom	332,168	126	93.0%	179	1,413	58.7
5.	Waldorf Garden Property	Tuen Mun	80,842	47	100.0%	73	810	46.4
6.	Caribbean Bazaar <b>NEW!</b>	Tung Chung	63,018	42	100.0%	117	449	4.3
7.	Smartland	Tsuen Wan	123,544	94	94.4%	67	376	17.3
8.	Tsing Yi Square Property	Tsing Yi	78,836	62	100.0%	27	314	16.8
9.	Jubilee Court Shopping Centre	Shatin	170,616	48	81.5%	97	304	11.7
10.	The Household Center	Kwai Chung	91,779	54	97.0%	43	274	13.9
11.	Centre de Laguna Property	Kwun Tong	43,000	22	100.0%	-	166	7.8
12.	Hampton Loft <b>NEW!</b>	West Kowloon	74,734	3	100.0%	35	164	1.9
13.	Lido Garden Property	Tsuen Wan	9,836	10	100.0%	-	100	4.9
14.	Rhine Garden Property	Tsuen Wan	14,604	4	100.0%	-	64	3.6
	<b>Total</b>		<b>1,988,352</b>	<b>1,015</b>	<b>96.4%</b>	<b>1,660</b>	<b>11,500</b>	<b>494.7</b>

Note:

Metro Town, Caribbean Bazaar and Hampton Loft were acquired on 15 October 2009. FY2009 net property income represents the period from 16 October 2009 to 31 December 2009.



Building on a  
solid foundation



# Fortune REIT's Portfolio

The Manager's main objective for the property portfolio is to

**enhance rental returns** through implementation of proactive lease management and asset enhancement initiatives.

City One Shatin Property



## 1. City One Shatin Property

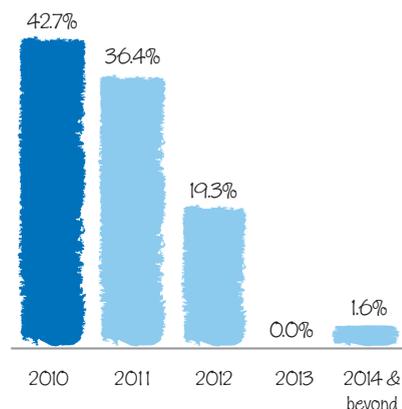
City One Shatin Property, located in Shatin, New Territories and south of the Shing Mun River, is the commercial constituent of the 10,642-unit City One Shatin residential development. The City One Shatin residential development was completed in the 1980's and is one of the largest residential developments in Hong Kong. City One Shatin Property is a retail mall which serves the daily needs of the local City One Shatin residents, as well as residents from other developments in the vicinity. The catchment population consists of young families, students and workers in the area.

City One Shatin Property can be easily accessed by private and public transportation. It is strategically located near City One Mass Transit Railway ("MTR") Station and in close proximity to the Shatin MTR Station.



Top 5 tenants	Trade sector	% of gross rental <sup>1</sup>
1 Park'N Shop	Supermarkets	6.8%
2 Bank of China (Hong Kong) Limited	Banking & Real Estate Services	4.0%
3 Fook Choi Seafood Restaurant	Food & Beverages	3.4%
4 Cambridge Nursing Home (City One) Limited	Services & Education	2.9%
5 Oi Tak (ShaTin) Old People's Home	Services & Education	2.4%

### Lease expiry profile<sup>2</sup>



#### Notes:

- Gross rental includes rental income and license income due from tenancies but excludes turnover rent.
- Based on gross rental for the month of December 2009.
- Valued by Savills as at 31 December 2009.
- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

### Tenant trade mix analysis<sup>2</sup>



### Key statistics

as at 31 December 2009

Location	No 1 and 2 Ngan Shing Street, No 6 Lok Shing Street and Various Ground Floor Shops of the Residential Towers, City One Shatin, Shatin, New Territories, Hong Kong
----------	---

Land title	Government Leasehold until 30 June 2047
Year of completion	1981 – 1989
Gross rentable area	414,469 sf
Car park lots	658
Number of tenants	256
Purchase price	HK\$2,559 million
Market valuation <sup>3</sup>	HK\$3,548 million
Actual occupancy	98.2% (2008: 97.0%)
Gross revenue <sup>4</sup>	HK\$238.4 million (2008: HK\$230.1 million)
Net property income	HK\$177.0 million



Ma On Shan Plaza



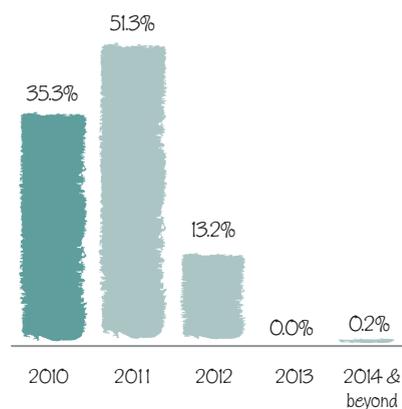
## 2. Ma On Shan Plaza

Ma On Shan Plaza is located in Ma On Shan, Shatin, New Territories, which is a well-established new town, and home to about 194,000 people. Ma On Shan Plaza is directly connected to the Ma On Shan MTR Station and is easily accessible by public transportation with bus terminals, a public light bus terminal, and a taxi waiting area all located on its ground floor. Ma On Shan Plaza is part of the 1,102-unit Bayshore Towers residential complex and is linked to the adjacent 4,760-unit Sunshine City residential development, as well as the 5.5-hectare Ma On Shan Park, by a number of covered footbridges.



Top 5 tenants	Trade sector	% of gross rental <sup>1</sup>
1 Bank of China (Hong Kong) Limited	Banking & Real Estate Services	8.3%
2 Park'N Shop	Supermarkets	7.9%
3 Maxim's Chinese Restaurant	Food & Beverages	7.2%
4 The Bank of East Asia	Banking & Real Estate Services	3.7%
5 Shanghai Commercial Bank Limited	Banking & Real Estate Services	3.0%

### Lease expiry profile<sup>2</sup>



#### Notes:

- Gross rental includes rental income and license income due from tenancies but excludes turnover rent.
- Based on gross rental for the month of December 2009.
- Valued by Savills as at 31 December 2009.
- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

### Tenant trade mix analysis<sup>2</sup>

Banking & Real Estate Services	33.4%
Electronics & IT	1.9%
Fashion & Shoes	6.3%
Food & Beverages	16.6%
Gifts & Speciality, Hobbies, Toys, Jewellery	7.0%
Homeware & Home Furnishing	1.0%
Leisure & Entertainment, Sports & Fitness	2.6%
Services & Education	17.0%
Supermarkets	7.9%
Others	6.3%

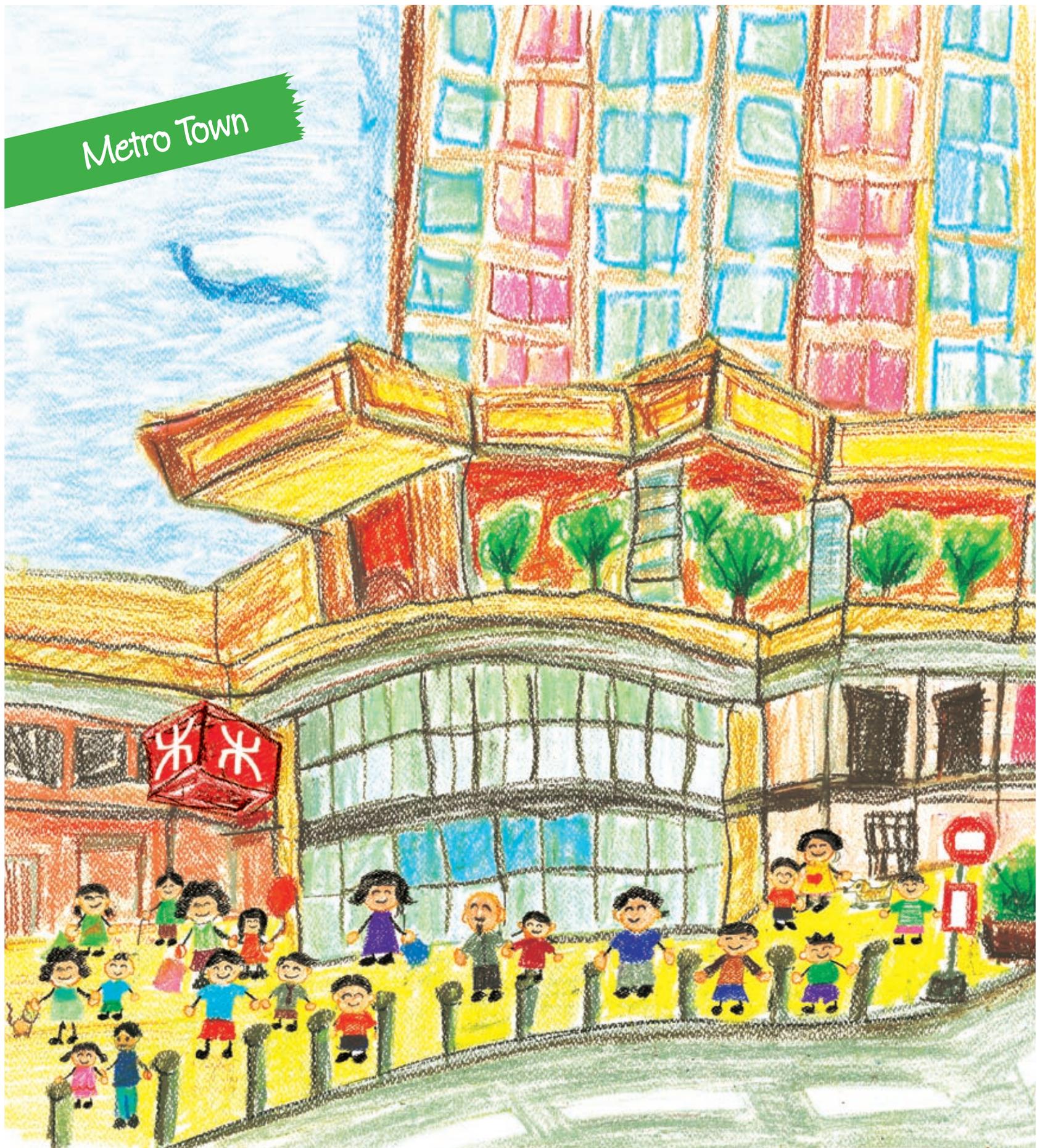
### Key statistics

as at 31 December 2009

Location	No 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1994
Gross rentable area	310,084 sf
Car park lots	290
Number of tenants	139
Purchase price	HK\$934 million
Market valuation <sup>3</sup>	HK\$1,974 million
Actual occupancy	100.0% (2008: 99.9%)
Gross revenue <sup>4</sup>	HK\$156.7 million (2008: HK\$145.7 million)
Net property income	HK\$117.1 million



Metro Town



## 3. The Metro Town

Metro Town is located on top of Tiu Keng Leng MTR station which is an interchange for the Kwun Tong Line and the Tseung Kwan O Line. It is further connected via several pedestrian bridges to other large residential developments including Ocean Shore, a 5,728-unit private residential development, Kin Ming Estate, a 7,000-unit public housing estate and Choi Ming Court, a 4,720-unit public housing estate/home ownership scheme development. The ground floor of the mall links to a bus terminal connecting the Tiu Keng Leng area with other parts of Tseung Kwan O as well as the main urban areas of Hong Kong and Kowloon. Fortune REIT acquired Metro Town on 15 October 2009.



Top 5 tenants	Trade sector	% of gross rental <sup>1</sup>
1 Park'N Shop	Supermarkets	11.3%
2 Max Gold International Development Ltd.	Food & Beverages	5.2%
3 Fairwood Fast Food	Food & Beverages	4.0%
4 Sweetheart Garden Restaurant	Food & Beverages	3.9%
5 The Bank of East Asia	Banking & Real Estate Services	3.1%

### Key statistics

as at 31 December 2009

Location No 8 King Ling Road,  
Tseung Kwan O,  
Metro Town,  
Hong Kong

Land title Government  
Leasehold until 10  
February 2053

Year of completion 2006

Gross rentable area 180,822 sf

Car park lots 74

Number of tenants 108

Purchase price HK\$1,452 million

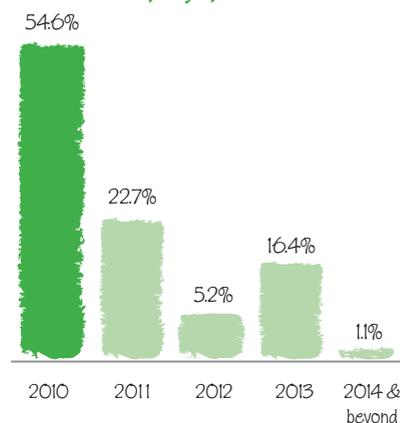
Market valuation<sup>3</sup> HK\$1,544 million

Actual occupancy 100.0%

Gross revenue<sup>4,5</sup> HK\$19.5 million

Net property income<sup>5</sup> HK\$13.3 million

### Lease expiry profile<sup>2</sup>



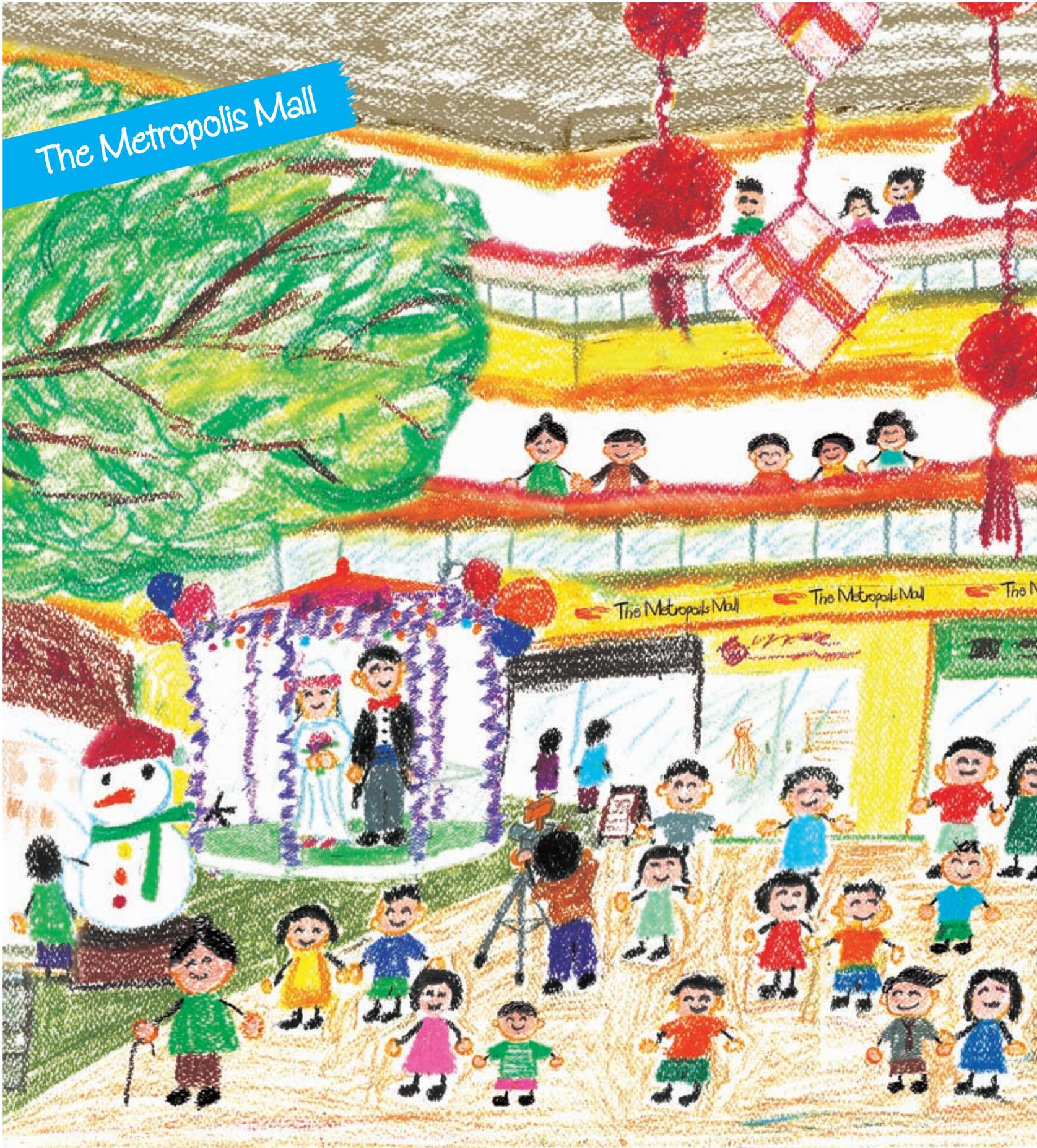
Notes:

- Gross rental includes rental income and license income due from tenancies but excludes turnover rent.
- Based on gross rental for the month of December 2009.
- Valued by Savills as at 31 December 2009.
- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
- Represents the period from 16 October 2009 to 31 December 2009.

### Tenant trade mix analysis<sup>2</sup>



# The Metropolis Mall



## 4. The Metropolis Mall

The Metropolis Mall, is located in the established residential and commercial hub of Hung Hom in South Kowloon. It is the retail portion of The Metropolis, a 1.4 million sf complex comprising a retail mall, an office tower, a hotel and serviced apartments. It is directly connected to the Hung Hom MTR Station and is in close proximity to the East Tsim Sha Tsui MTR Station. Moreover, The Metropolis Mall is served by the Hung Hom bus terminal and a taxi station, with the Kowloon entrance of the Cross Harbour Tunnel just minutes away.



Top 5 tenants	Trade sector	% of gross rental <sup>1</sup>
1 Cheung Kong Property Development Limited	Banking & Real Estate Services	17.5%
2 Choi Fook Royal Banquet	Food & Beverages	8.6%
3 HKCT Group Limited	Services & Education	7.4%
4 Perfect Idea Limited	Banking & Real Estate Services	4.9%
5 Evangelical Free Church of China	Community Services	4.4%

### Key statistics

as at 31 December 2009

Location No 6-10  
Metropolis Drive,  
The Metropolis,  
Kowloon,  
Hong Kong

Land title Government  
Leasehold  
until 30 June 2047

Year of completion 2001

Gross rentable area 332,168 sf

Car park lots 179

Number of tenants 126

Purchase price HK\$1,464 million

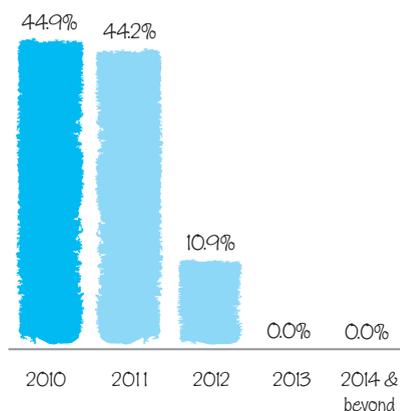
Market valuation<sup>3</sup> HK\$1,413 million

Actual occupancy 93.0% (2008: 95.9%)

Gross revenue<sup>4</sup> HK\$100.9 million  
(2008: HK\$86.7 million)

Net property income HK\$58.7 million

### Lease expiry profile<sup>2</sup>



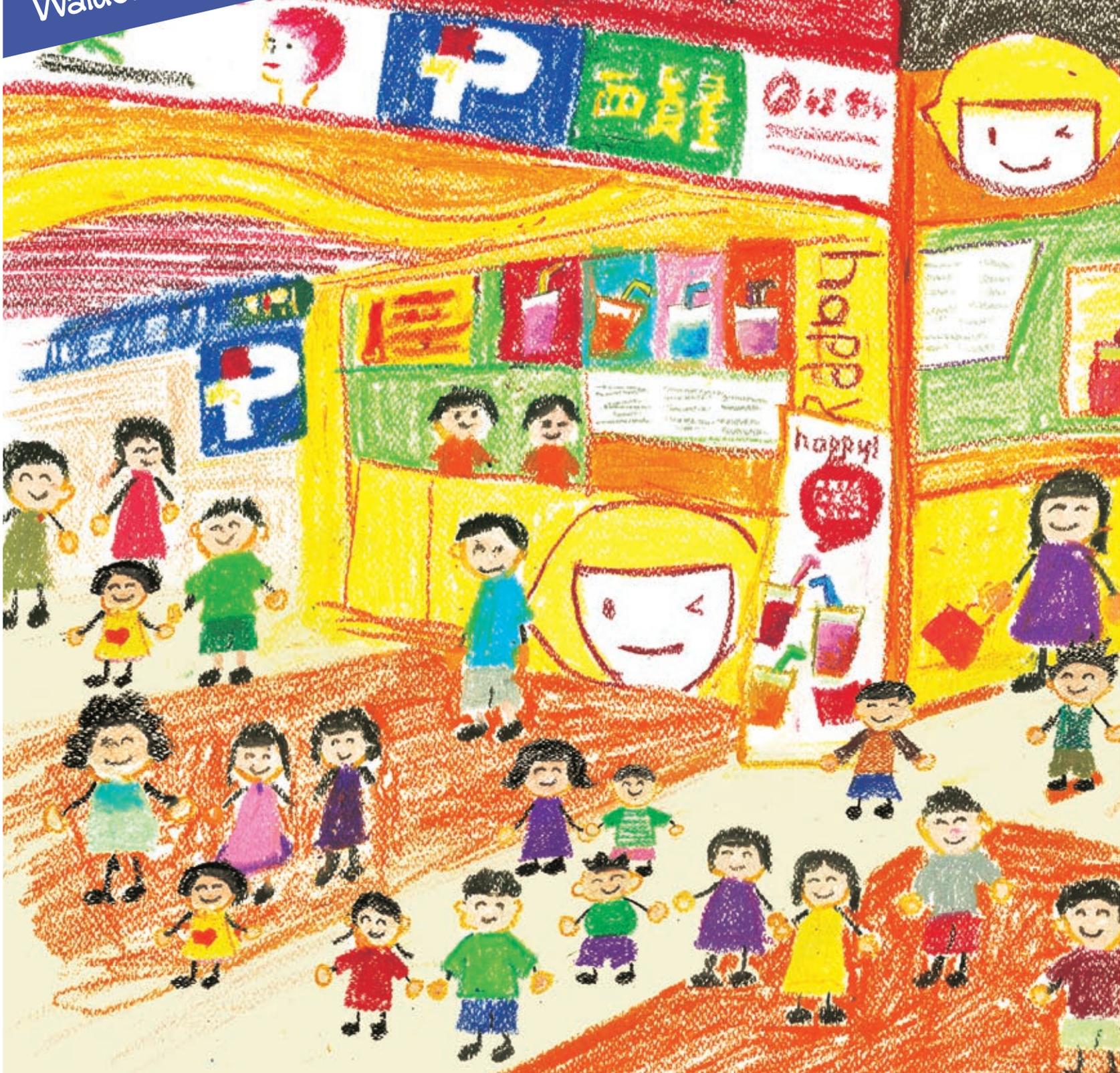
#### Notes:

- Gross rental includes rental income and license income due from tenancies but excludes turnover rent.
- Based on gross rental for the month of December 2009.
- Valued by Savills as at 31 December 2009.
- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

### Tenant trade mix analysis<sup>2</sup>



Waldorf Garden Property



## 5. Waldorf Garden Property

Waldorf Garden Property is located in the heart of Tuen Mun District. It is part of the Waldorf Garden residential development, consisting of 5 residential tower blocks above a commercial podium. Waldorf Garden Property is connected to the adjacent Tuen Mun Town Plaza, one of the largest shopping malls in Northwest New Territories, via a covered footbridge. It is also located next to the Tuen Mun Highway, which connects it to different parts of the New Territories, Kowloon and Hong Kong Island via an extensive network of buses, light rail and taxis. In addition, the Tuen Mun MTR station has brought even more shopper traffic to Waldorf Garden Property.



Top 5 tenants	Trade sector	% of gross rental <sup>1</sup>
1 Red Seasons Aroma Restaurant	Food & Beverages	9.8%
2 Pizza Hut	Food & Beverages	8.4%
3 Park'N Shop	Supermarkets	6.6%
4 Yeh Lam Kwok Restaurant	Food & Beverages	5.0%
5 Maxim's Caterers Limited	Food & Beverages	5.0%

### Key statistics

as at 31 December 2009

Location No 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong

Land title Government Leasehold until 30 June 2047

Year of completion 1982

Gross rentable area 80,842 sf

Car park lots 73

Number of tenants 47

Purchase price HK\$400 million

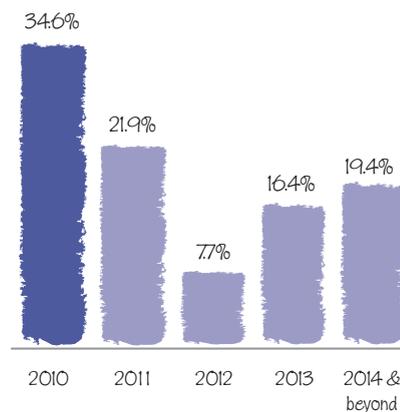
Market valuation<sup>3</sup> HK\$810 million

Actual occupancy 100.0% (2008: 100.0%)

Gross revenue<sup>4</sup> HK\$59.7 million (2008: 55.0 million)

Net property income HK\$46.4 million

### Lease expiry profile<sup>2</sup>



Notes:

- Gross rental includes rental income and license income due from tenancies but excludes turnover rent.
- Based on gross rental for the month of December 2009.
- Valued by Savills as at 31 December 2009.
- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

### Tenant trade mix analysis<sup>2</sup>



## 6. Caribbean Bazaar



Caribbean Bazaar is located on the northern shore of Tung Chung and is the shopping center of Caribbean Coast, a 5,336-unit residential development, and adjacent to Coastal Skyline, a 3,370-unit residential development. Tung Chung is mainly connected to other urban areas by the Tung Chung MTR Line as well as a number of bus routes which connects the Hong Kong International Airport with urban areas via Tung Chung. Fortune REIT acquired Caribbean Bazaar on 15 October 2009.

### Key statistics as at 31 December 2009

Location	No 1 Kin Tong Road, Tung Chung, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	2004
Gross rentable area	63,018 sf
Car park lots	117
Number of tenants	42
Purchase price	HK\$428 million
Market valuation <sup>1</sup>	HK\$449 million
Actual occupancy	100.0%
Gross revenue <sup>2,3</sup>	HK\$6.9 million
Net property income <sup>3</sup>	HK\$4.3 million

## 7. Smartland



Smartland is located in the densely-populated district of Tsuen Wan, New Territories, opposite the 1,026-room Panda Hotel. Situated near the Tai Wo Hau MTR station, it is also easily accessible to shoppers, residents and tourists via public and private transport. The mall features a 32,000 sf supermarkets and two Chinese restaurants that serve the residents of Tsuen Wan District.

### Key statistics as at 31 December 2009

Location	No 16 Tsuen Wan Street, Tsuen Wan, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1981
Gross rentable area	123,544 sf
Car park lots	67
Number of tenants	94
Purchase price	HK\$258 million
Market valuation <sup>1</sup>	HK\$376 million
Actual occupancy	94.4% (2008: 94.4%)
Gross revenue <sup>2</sup>	HK\$27.0 million (2008: HK\$29.0 million)
Net property income	HK\$17.3 million

## 8. Tsing Yi Square Property



Tsing Yi Square Property is located on Tsing Yi Island, northwest of Hong Kong Island. It is the commercial constituent of the Tsing Yi Garden residential development, which was completed in 1986, and consists of some 1,520 residential units. Tsing Yi Square Property is within walking distance to Tsing Yi MTR Station, which provides convenient access to Hong Kong Island, Kowloon and the Hong Kong International Airport. The property is also easily accessible via buses, mini-buses and taxis.

### Key statistics as at 31 December 2009

Location	No 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1986
Gross rentable area	78,836 sf
Car park lots	27
Number of tenants	62
Purchase price	HK\$230 million
Market valuation <sup>1</sup>	HK\$314 million
Actual occupancy	100.0% (2008: 97.6%)
Gross revenue <sup>2</sup>	HK\$24.6 million (2008: HK\$23.0 million)
Net property income	HK\$16.8 million

#### Notes:

1. Valued by Savills.
2. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
3. Represents the period from 16 October 2009 to 31 December 2009.

## 9. Jubilee Court Shopping Centre



Jubilee Court Shopping Centre is located opposite to Fo Tan MTR Station, near the Shatin Racecourse. It is one MTR stop away from The Chinese University of Hong Kong and Shatin town centre respectively. The shopping centre is the retail podium of the 2,260-unit Jubilee Garden residential development. It caters to the strong demand for education and domestic services by the local community in surrounding areas.

### Key statistics as at 31 December 2009

Location	No 2-18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1986
Gross rentable area	170,616 sf
Car park lots	97
Number of tenants	48
Purchase price	HK\$218 million
Market valuation <sup>1</sup>	HK\$304 million
Actual occupancy	81.5% (2008: 88.1%)
Gross revenue <sup>2</sup>	HK\$20.9 million (2008: HK\$22.9 million)
Net property income	HK\$11.6 million

## 10. The Household Center



The Household Center is located in the developed urban centre of Kwai Chung, New Territories. This mall serves the daily needs of the residents of Nob Hill, a 696-unit residential development above the mall, as well as the 13,110 residential units in Mei Foo Sun Chuen, Lai Yan Court, Wah Lai Estate, Lai King Estate, Regency Park, Wonderland Villas and Ching Lai Court. The mall is conveniently located above a bus terminus and is within walking distance to Mei Foo MTR Station.

### Key statistics as at 31 December 2009

Location	No 8 King Lai Path, Kwai Chung, New Territories, Hong Kong
Land title	Government Leasehold until 16 July 2048
Year of completion	2002
Gross rentable area	91,779 sf
Car park lots	43
Number of tenants	54
Purchase price	HK\$233 million
Market valuation <sup>1</sup>	HK\$274 million
Actual occupancy	97.0% (2008: 87.1%)
Gross revenue <sup>2</sup>	HK\$21.2 million (2008: HK\$21.6 million)
Net property income	HK\$13.9 million

## 11. Centre de Laguna Property



Centre de Laguna Property is located in the Kwun Tong District of East Kowloon. It is the commercial podium under Phase 3 of the Laguna City Project. Completed in 1992, the whole Laguna City development stands on about a total of 1 million sf and houses some 8,000 households in 38 residential blocks. It is easily accessible by public and private transport including buses, public light buses and taxis, and is within walking distance to the Lam Tin MTR Station.

### Key statistics as at 31 December 2009

Location	No 93 and 99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1992
Gross rentable area	43,000 sf
Car park lots	-
Number of tenants	22
Purchase price	HK\$135 million
Market valuation <sup>1</sup>	HK\$166 million
Actual occupancy	100.0% (2008: 100.0%)
Gross revenue <sup>2</sup>	HK\$11.7 million (2008: HK\$11.7 million)
Net property income	HK\$7.8 million

#### Notes:

1. Valued by Savills as at 31 December 2009.

2. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.



## 12. Hampton Loft



Hampton Loft is located on the northwestern shore of West Kowloon near the MTR Olympic station, which is a newly developed area that originated from the MTR Airport Express line project and is the retail podium of Hampton Place, a 880-unit residential development. Fortune REIT acquired Hampton Loft on 15 October 2009.

### Key statistics as at 31 December 2009

Location	No 11 Hoi Fan Road, Kowloon, Hong Kong
Land title	Government Leasehold until 12 December 2049
Year of completion	2003
Gross rentable area	74,734 sf
Car park lots	35
Number of tenants	3
Purchase price	HK\$159 million
Market valuation <sup>1</sup>	HK\$164 million
Actual occupancy	100.0%
Gross revenue <sup>2,3</sup>	HK\$2.7 million
Net property income <sup>3</sup>	HK\$1.9 million

## 13. Lido Garden Property



Lido Garden Property is comprised of 12 ground-floor shops at the commercial and residential development of Lido Garden. The property is located in Sham Tseng, a residential area west of Tsuen Wan New Town, and sits along the waterfront facing the Tsing Ma and Ting Kau Bridge. Sham Tseng is well known for its themed restaurants which attract crowds of local and visiting patrons. Lido Garden Property is easily accessible via buses, mini-buses and taxis.

### Key statistics as at 31 December 2009

Location	No 41-43 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1989
Gross rentable area	9,836 sf
Car park lots	–
Number of tenants	10
Purchase price	HK\$75 million
Market valuation <sup>1</sup>	HK\$100 million
Actual occupancy	100.0% (2008: 100.0%)
Gross revenue <sup>2</sup>	HK\$6.1 million (2008: HK\$6.3 million)
Net property income	HK\$4.9 million

## 14. Rhine Garden Property



Rhine Garden Property houses ground-floor retail shops at the podium of the Rhine Garden commercial and residential development which was completed in 1992. Rhine Garden Property is located opposite Lido Garden Property and shares the same accessibility, catchment and patronage.

### Key statistics as at 31 December 2009

Location	No 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong
Land title	Government Leasehold until 30 June 2047
Year of completion	1992
Gross rentable area	14,604 sf
Car park lots	–
Number of tenants	4
Purchase price	HK\$40 million
Market valuation <sup>1</sup>	HK\$64 million
Actual occupancy	100.0% (2008: 100.0%)
Gross revenue <sup>2</sup>	HK\$5.1 million (2008: HK\$5.0 million)
Net property income	HK\$3.6 million

#### Notes:

1. Valued by Savills as at 31 December 2009.
2. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
3. Represents the period from 16 October 2009 to 31 December 2009.

We work  
as a team



# Board of Directors



Chiu Kwok Hung, Justin

## **Chairman and Director**

Mr. Chiu is the Chairman of the Manager. He is also the Chairman and Non-Executive Director of ARA, the holding company of the Manager, the Chairman of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT) and the Chairman of ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT). ARA and Suntec REIT are listed on SGX-ST while Prosperity REIT is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Chiu is also a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Mr. Chiu is a Fellow of Hong Kong Institute of Real Estate Administrators and a member of the 11th Shanghai Committee of the Chinese People's Political Consultative Conference of the People's Republic of China.

Mr. Chiu has more than 30 years of international experience in real estate and is one of the most respected professionals in the property industry in Asia. Mr. Chiu is an Executive Director of Cheung Kong (Holdings) Limited ("Cheung Kong"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. He joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, marketing and property management teams. Prior to joining Cheung Kong, Mr. Chiu was with Sino Land Company Limited from 1994 to 1997 and Hang Lung Development Company, Limited (now known as Hang Lung Group Limited) from 1979 to 1994 responsible for the leasing and property management in both companies.

Mr. Chiu holds Bachelor degrees in Sociology and Economics from Trent University in Ontario, Canada.



Lim Hwee Chiang, John

## **Director**

Mr. Lim is a Director of the Manager. He is also the Group Chief Executive Officer and an Executive Director of ARA, the holding company of the Manager, which is also listed on the SGX-ST. He has been the Group Chief Executive Officer and a Director of ARA since its establishment in 2002. He is also a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT) and Am ARA REIT Managers Sdn Bhd (the manager of AmFIRST REIT listed on Bursa Malaysia) and the Chairman of APM Property Management Pte. Ltd. and Suntec Singapore International Convention & Exhibition Services Pte. Ltd. In addition, Mr. Lim is an Independent Director and Member of the audit committee of Teckwah Industrial Corporation Limited ("Teckwah") which is also listed on the SGX-ST. He is also the Vice President of the Hong Kong-Singapore Business Association, the Senior Vice-president of the Asian Public Real Estate Association and a Member of the Valuation Review Board of the Ministry of Finance of Singapore.

Mr. Lim has close to 30 years of experience in real estate. Prior to the founding of ARA, from 1997 to 2002, he was an Executive Director of GRA (Singapore) Pte. Ltd., a wholly-owned subsidiary of Prudential (US) Real Estate Investors. From 1996 to 1997, he founded and was the Managing Director of The Land Managers (S) Pte. Ltd., a Singapore-based property and consulting firm specializing in feasibility studies, marketing and leasing management in Singapore, Hong Kong and China. He was the General Manager of the Singapore Labour Foundation Management Services Pte. Ltd. from 1991 to 1995, and was with DBS Land Limited (now part of CapitalLand Limited) from 1981 to 1990.

Mr. Lim holds a Bachelor of Engineering (First Class Honours) in Mechanical Engineering, a Master of Science in Industrial Engineering, as well as a Diploma in Business Administration, each from the National University of Singapore.

## Board of Directors



Ip Tak Chuen, Edmond

### **Director**

Mr. Ip is a Director of the Manager. He is also a Non-Executive Director of ARA, the holding company of the Manager and a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). Both ARA and Suntec REIT are listed on SGX-ST.

Mr. Ip has been an Executive Director of Cheung Kong since 1993 and Deputy Managing Director since 2005, responsible for overseeing all financial and treasury functions of Cheung Kong and its subsidiaries, particularly in the fields of corporate and project finance. He has been an Executive Director of Cheung Kong Infrastructure Holdings Limited ("CK Infrastructure") since its incorporation in 1996 and Deputy Chairman since 2003, and the Senior Vice President and Chief Investment Officer of CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") since 2002. He oversees matters relating to corporate finance, strategic acquisition and investment of both CK Infrastructure and CK Life Sciences. Mr. Ip is also a Non-executive Director of TOM Group Limited ("TOM"), AVIC International Holding (HK) Limited ("AVIC"), Excel Technology International Holdings Limited ("Excel"), Shougang Concord International Enterprises Company Limited ("Shougang") and Ruinian International Limited ("Ruinian"). Cheung Kong, CK Infrastructure, CK Life Sciences, TOM, AVIC, Excel, Shougang and Ruinian are listed on The Stock Exchange of Hong Kong Limited. Prior to joining Cheung Kong, Mr. Ip held a number of senior financial positions in major financial institutions and has extensive experience in the Hong Kong financial market covering diverse activities such as banking, capital markets, corporate finance, securities brokerage and portfolio investments.

Mr. Ip holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration.



Yeung, Eirene

### **Director**

Ms. Yeung is a Director of the Manager. She is also Director, Corporate Strategy Unit and Company Secretary of Cheung Kong and Alternate Director to Mr. Kam Hing Lam, the Group Managing Director of CK Infrastructure. She is also the Company Secretary of CK Infrastructure and CK Life Sciences. Ms. Yeung joined Cheung Kong in 1994. She advises the Board on corporate strategy, and currently heads the corporate legal and secretarial team that oversees listing, regulatory and origination compliance, and advises and drives mergers and acquisitions, property investments and acquisitions, securities placement and investment, private equity investment, fund investment, bond and note issue and other financing exercises, as well as derivative and swap transactions and investment in structured products.

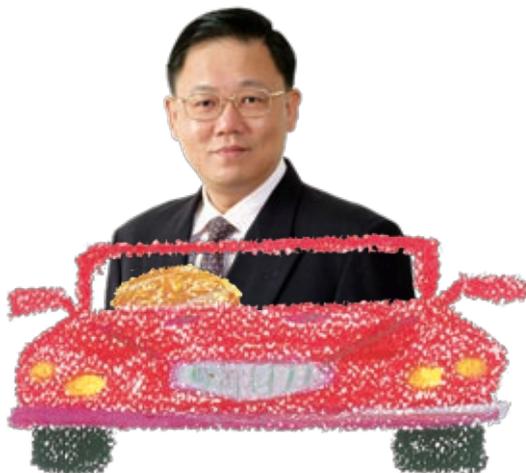
Ms. Yeung has extensive experience in corporate and commercial legal work, regulatory compliance and company secretarial field. Her experience covers many areas of law including corporate finance, general commercial, property development, finance, securities, tax and trust, joint ventures, intellectual property and employment. She has provided professional advice and support to the legal and regulatory aspects of significant corporate exercises of the above listed groups.

Prior to joining Cheung Kong, Ms. Yeung was in private practise at the law firms of Messrs. Robert W.H. Wang & Co and Deacons for a total of 10 years from 1984 to 1994 where she handled a wide spectrum of corporate and commercial legal work. She has been a solicitor of the High Court of the Hong Kong Special Administrative Region ("HKSAR") from 1986 and of the Supreme Court of Judicature in England and Wales from 1990.

Ms. Yeung is a member of the Dual Filing Advisory Group of the Securities and Futures Commission, a member of the Board of Review (Inland Revenue Ordinance), a member of the Companies Ordinance Rewrite Advisory Group, a member of the Advisory Group on BBA-JD Programme of The Chinese University of Hong Kong ("HKCU") and a member of the Public Affairs Forum, Home Affairs Bureau of the HKSAR; and was a Part-time Member of the Central Policy Unit of the Government of HKSAR from 2005 to 2007. Ms. Yeung is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a Master of Science degree in Finance and a Master's degree in Business Administration from HKCU, and a Bachelor's degree in Laws from the University of Hong Kong.



# Board of Directors



Lim Lee Meng

**Independent Director and Chairman of Audit Committee**

Mr. Lim is an Independent Director and the Chairman of the Audit Committee of the Manager. He is also currently a senior partner of RSM Chio Lim, a member firm of RSM International. Mr. Lim is also an Independent Director of Teckwah, Datapulse Technology Limited ("Datapulse"), Tye Soon Ltd, Europtronic Group Ltd ("Europtronic") and ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). He also serves as the Chairman of the audit committees of Teckwah, Datapulse and Europtronic. Mr. Lim is also a practising member of the Institute of Certified Public Accountants of Singapore, an associate member of the Institute of Chartered Secretaries and Administrators and a member of the Singapore Institute of Directors. He is also the chairman of Yio Chu Kang Citizen Consultative Committee and the chairman of the finance committee of Ang Mo Kio – Yio Chu Kang Town Council.

Mr. Lim graduated from the Nanyang University of Singapore with a Bachelor of Commerce (Accountancy) degree in May 1980. He also holds a Master of Business Administration degree from the University of Hull (1992), a Diploma in Business Law from the National University of Singapore (1989) and an ICSA qualification from the Institute of Chartered Secretaries and Administrators.



Cheng Mo Chi, Moses

**Independent Director**

Dr. Cheng Mo Chi Moses is an Independent Director and Member of the Audit Committee of the Manager. He is also an Independent Non-Executive Director of ARA, the holding company of the Manager and a number of public-listed companies including the Hong Kong Exchanges and Clearing Limited, K. Wah International Holdings Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Towngas China Company Limited, Kader Holdings Company Limited, Liu Chong Hing Investment Limited, City Telecom (H.K.) Limited, Guangdong Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. Dr. Cheng is also the founder chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Presently, Dr. Cheng is the Chairman of the Education Commission, the Chairman of the Advisory Committee on Post-office Employment for former Chief Executives and Politically Appointed Officials, the Chairman of the Advisory Committee on Post-service Employment of Civil Servants, and a member of the Financial Reporting Council. Dr. Cheng is also an active Rotarian and served as district governor of Rotary International District 3450 from 1993 to 1994. In addition, Dr. Cheng is an active member of the Anglican Church and is the chancellor of the Province of the Hong Kong Sheng Kung Hui.

Dr. Cheng is currently the senior partner of Messrs. P.C. Woo & Co. a law firm in Hong Kong. He served as a member of the Legislative Council of Hong Kong between 1991 and 1995, and was appointed a Justice of the Peace by the HKSAR Government in 1996.

Dr. Cheng holds a Bachelor of Laws from the University of Hong Kong, a Post-Graduate Certificate in Laws from the University of Hong Kong, a Doctor of Law from the Hong Kong Baptist University and a Doctor of Law from Lingnan University. Dr. Cheng was awarded the Order of the British Empire ("OBE") by Her Majesty, the Queen of the United Kingdom in 1997 and the Gold Bauhinia Star medal by the Hong Kong Special Administrative Region Government in 2003.



Sng Sow-Mei (alias Poon Sow Mei)

**Independent Director**

Mrs. Sng is an Independent Director and Member of the Audit Committee of the Manager. She is also a Independent Non-Executive Director and Audit Committee member of CK Infrastructure, an Independent Director and Audit Committee member of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT) and ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT). Since 2001, Mrs. Sng has been the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently she is the Advisor of InfoWave Pte Ltd and Director of INFA Systems Ltd.

Prior to her appointments with Singapore Technologies Pte Ltd, where she was Director, Special Projects for North East Asia during 2000 and 2001, Mrs. Sng was the Managing Director of CapitalLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. From 1983 to 1997, Mrs. Sng was the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively in Hong Kong. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997.

Mrs. Sng, who holds a Bachelor of Arts degree from the Nanyang University of Singapore, has wide experience in various fields of industrial investment, business development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) – Pingat Pentadbiran Awam (Perak) and the Singapore Public Administration Medal (Silver).



Ma Lai Chee, Gerald

**Alternate Director to Ip Tak Chuen, Edmond**

Mr. Ma is an Alternate Director to Mr. Ip Tak Chuen, Edmond, a Director of the Manager. He is currently Director, Corporate Strategy Unit and Chief Manager, Corporate Business Development at Cheung Kong. He is also a Director of AMTD Financial Planning Limited, iBusiness Corporation Limited, CK Communications Limited, Beijing Net-Infinity Technology Development Company Limited and mReferral Corporation (HK) Limited. He also serves as a Non-Executive Director of ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT). Mr. Ma is an Alternate Director to Mr. Ip Tak Chuen, Edmond, Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT) and an Alternate Director to Mr. Dominic Lai, Non-Executive Director of Hutchison Telecommunications Hong Kong Holdings Limited.

Mr. Ma has over 20 years of experience in banking, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee for Caritas Hong Kong and a member of the Finance Committee of the Scout Association of Hong Kong. He is also a member of the Chancellor's Circle of the University of British Columbia, Canada ("UBC") and a member of the Dean's Advisory Board for the Faculty of Arts of UBC. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.



# Management Team

## Chiu Yu, Justina

### **Chief Operating Officer**

Ms. Chiu is the Chief Operating Officer of the Manager. She is responsible for the overall performance and direction of Fortune REIT which includes strategic planning, investment, asset management and investor relations.

Ms. Chiu was previously with the Manager between 2003 to 2006, where she was involved in various functions of the Manager including finance, research and investment, asset management and investor relations. She re-joined the Manager in 2008 as a Director and was appointed as the Chief Operating Officer in 2009.

Ms. Chiu holds a Master of Science degree in Real Estate Economics and Finance, a Bachelor of Science degree in Accounting and Finance, a Postgraduate Certificate in Laws and a Postgraduate Diploma in Law. She is also a solicitor of the HKSAR, a CFA Charterholder and a member of the American Institute of Certified Public Accountants.

Ms. Chiu is the daughter of Mr. Chiu Kwok Hung, Justin, the Chairman of the Manager. Ms. Chiu is a Hong Kong citizen.

## Lau Wing Han, Vivian

### **Senior Asset Manager**

Ms. Lau is the Senior Asset Manager of the Manager. Ms. Lau is responsible for the property management and strategic planning of the properties in Fortune REIT.

Prior to joining the Manager, Ms. Lau was the Assistant General Manager of a local developer, responsible for the overall performance of a portfolio of properties, including shopping arcade and retail space, commercial office and service apartments in Hong Kong. She has also worked in the Real Estate Department and as head of the Collateral Appraisal Department of Hang Seng Bank Limited for over 8 years, with experience in property management, building renovation, marketing and leasing of bank and non-bank properties, and mortgage valuations.

Ms. Lau holds a Master Degree of Housing Management and is a qualified General Practice Surveyor, an associate member of the Hong Kong Institute of Surveyors and a member of the Hong Kong Institute of Housing. Ms. Lau is a Hong Kong citizen.

## Hung Yuen Chun, Jenny

### **Manager, Investment and Investor Relations**

Ms. Hung is the Investment and Investor Relations Manager of the Manager. Ms. Hung is responsible for communicating and liaising with Unitholders and investors of Fortune REIT. Ms. Hung is also responsible for identifying, researching and evaluating potential acquisitions or divestments which are consistent with the Manager's investment strategy with a view to enhance Fortune REIT's returns to Unitholders. Ms. Hung has more than 10 years experience in the real estate industry with exposure to the Hong Kong and People's Republic of China ("PRC") markets.

Prior to joining the Manager, Ms. Hung worked with Cheung Kong (Holdings) Limited from 2000 to 2006 as Assistant Manager, Market Research. She was involved in market analysis and formulation of marketing strategies for the launch of new residential projects as well as undertaking feasibility studies, deal structuring and negotiations for potential investments in Hong Kong and PRC. From 1999 to 2000, Ms. Hung was the Manager, Valuation Advisory Services in Jones Lang LaSalle, where she was involved in asset valuation and development advisory works. Ms. Hung started her career in the HKSAR Government Lands Department in 1997 after obtaining a Bachelor of Science degree in Surveying (First Class Honours) from the University of Hong Kong. She is a qualified General Practice Surveyor and an associate member of the Hong Kong Institute of Surveyors. Ms. Hung is a Hong Kong citizen.

# Management Team

## Lam Wai Man, Simon

### **Finance Manager**

Mr. Lam is the Finance Manager of the Manager. He is primarily responsible for the full spectrum of the financial functions, including financial management, taxation, treasury, internal control, compliance, investment and acquisitions of Fortune REIT.

Mr. Lam has over 10 years of commercial experience in finance across the industries of real estate development, hotel, travel and food and beverages management. He was the Financial Controller of a private fund and real estate development company in the region prior to joining the Manager. Mr. Lam was the Operations Controller of a Singapore-based food and beverages restaurant chain focusing on the internal control functions of the company.

Mr. Lam is a Hong Kong citizen. He holds a Bachelor degree in Business and a Master degree in Business Administration. He is also a member of CPA Australia.

## Wong Yuen Wah, Teresa

### **Asset Manager, Marketing & Promotions**

Ms. Wong is the Asset Manager, Marketing & Promotions of the Manager. She is responsible for the strategic planning, marketing and promotion of the properties of Fortune REIT.

Ms. Wong has over 10 years of marketing communications experience across the industries of real estate, hotel and travel. Prior to joining the Manager, she was the Senior Marketing Manager of a Hong Kong listed property developer, responsible for marketing, public relations, branding and promotion of properties in Dalian, Beijing and Hong Kong.

Ms. Wong is a Hong Kong citizen and holder of a MBA degree in International Management from the University of London. She also holds a Bachelor of Arts degree from the Chinese University of Hong Kong.

## Ng Boon Hua, Donovan

### **Assistant Finance Manager**

Mr. Ng is the Assistant Finance Manager of the Manager. He is primarily responsible for the financial accounting of Fortune REIT and provides support in areas of compliance, corporate secretariat and taxation.

Prior to joining the Manager, Mr. Ng was a Senior Accountant with Ascendas Land (Singapore) Pte Ltd, a major Singapore property developer, where he handled the accounts of the group and its subsidiaries. Before that, Mr. Ng was a Senior Accountant with Lindeteves-Jacoberg Limited, the manufacturer of a prestigious motor brand in Europe, which is listed on the SGX-ST.

Mr. Ng, who is a Singapore citizen, began his accounting career in 1995 and has over 10 years of commercial experience. He holds an ACCA (Association of Chartered Certified Accountants) qualification and is also a provisional member of the Institute of Certified Public Accountants of Singapore.



# Investor Relations

The Manager continues to improve the corporate transparency and the quality of its disclosures throughout the years. The Manager is committed to communicating to all Unitholders or potential investors on a timely basis and transparent fashion. Over the course of the Reporting Period, the Manager met up with institutional investors from Singapore, Hong Kong, Japan, United Kingdom, United States, Europe and Australia. These meetings enable us to provide updates on Fortune REIT's performance, significant developments, business outlook and our strategies. We also took part in various several conferences as part of efforts to build interest in Fortune REIT.

Other than announcements through the SGX-ST, our communication channels with investors and Unitholders include: media and analysts' briefing; one-on-one/group meetings or conference calls with investors, local/overseas roadshows and conferences; reports to Unitholders; press releases on major developments of Fortune REIT; notices of EGM; and Fortune REIT's website at [www.fortunereit.com](http://www.fortunereit.com). Individual and group mall tours are also arranged for institutional investors upon requests. The visits to the malls offer investors a first-hand experience of our malls' operations and for them to have a greater appreciation of the long-term growth potential of Fortune REIT.

## Revamped website

In September 2009, Fortune REIT website was revamped and re-launched. All Unitholders and potential investors enjoy 24-hour access to Fortune's website for information on Fortune's major developments, property descriptions, announcements and other corporate information. Fortune REIT's unit price is also displayed on the website (with a 20 mins delay). Also available on the website is an archive of Fortune REIT's announcements, press releases, reports to Unitholders and operational details. The latest information is posted on the website as soon as it is released to the SGX-ST and the media. We also provide an email alert service such that registered participants can promptly receive our latest press releases and announcements via email.

## Distributions

Fortune REIT distributes semi-annually; usually in February and August of each year. Unitholders will receive distributions in the Singapore dollar equivalent of the Hong Kong dollar distribution declared unless they elect to receive the distributions in Hong Kong dollars.

## Contact us

If you have any enquiries or would like to find out more about Fortune REIT, please feel free to contact the Manager, at:



: +65 6835 9232/+852 2169 0928



: +65 6835 9672/+852 2169 0968

[enquiries@fortunereit.com](mailto:enquiries@fortunereit.com)

[www.fortunereitmalls.com](http://www.fortunereitmalls.com)

[www.fortunereit.com](http://www.fortunereit.com)



# Corporate Governance Report

Fortune Real Estate Investment Trust (“Fortune REIT”) is a trust constituted by a deed of trust (as amended) (the “Trust Deed”) entered into between ARA Asset Management (Singapore) Limited (as manager of Fortune REIT) (the “Manager”) and HSBC Institutional Trust Services (Singapore) Limited (as trustee of Fortune REIT) (the “Trustee”).

The Manager has general powers of management over the assets of Fortune REIT. The Manager’s main responsibility is to manage Fortune REIT’s assets and liabilities for the benefit of Unitholders.

The primary role of the Manager is to set the strategic direction of Fortune REIT and give recommendations to the Trustee on the acquisition, divestment and enhancement of assets of Fortune REIT in accordance with its stated investment strategy.

Fortune REIT, constituted as a trust, is managed by the Manager and accordingly, it has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations and it is the Manager, not Fortune REIT, which remunerates all directors and employees of the Manager. The Manager is committed to maintain the highest standards of corporate governance.

This report describes the Manager’s corporate governance practices and policies in reference to the Code of Corporate Governance 2005 (the “Code”). It also includes proactive measures taken by the Manager for avoiding situations of conflict and potential conflict of interest, including prioritising the interests of the Unitholders over the Manager’s.

The Manager confirms that it has adhered to the principles and guidelines set out in the Code, where applicable. As Fortune REIT is a listed real investment estate trust, not all principles and guidelines of the Code are applicable to Fortune REIT and the Manager. Explanations have been provided where the principles and guidelines have not been adhered to.

## BOARD MATTERS

Principle 1

### **THE BOARD’S CONDUCT OF ITS AFFAIRS**

*Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.*

The board of directors of the Manager (the “Board”) is responsible for corporate governance and the overall management of the Manager. The Board establishes goals for the management and monitors the achievement of these goals.



# Corporate Governance Report

The Board is also responsible for the strategic business direction and risk management of Fortune REIT. All Board members participate in matters relating to corporate governance, business operations and risks, financial performance and the nomination and review of directors. The Board has established a framework for the management of the Manager and Fortune REIT, including a system of internal control and a business risk management process.

The Board meets to review the Manager's key activities. Board meetings are held once every quarter (or more often if necessary) to discuss and review the strategies and policies of Fortune REIT, including any significant acquisitions and disposals, the annual budget, the financial performance of Fortune REIT and approve the release of the quarterly, half year and full year results. The Board also reviews the risks to the assets of Fortune REIT, and acts upon any comments from the auditors of Fortune REIT. Where necessary, additional Board meetings would be held to address significant transactions or issues.

In the event that the directors are unable to attend Board meetings, the Manager's Articles of Association provide for Board meetings to be conducted by way of telephone and video conferencing. In lieu of physical meetings, written resolutions are also circulated for approval by the Board.

The Board has adopted a set of internal controls which it believes is adequate and appropriate delegations of authority has been provided to Management to facilitate operational efficiency.

Changes to regulations, policies and accounting standards are monitored closely. Where the changes have an important impact on Fortune REIT and its disclosure obligations, directors are briefed either during a Board meeting, at specially-convened sessions or via circulation of Board papers.

There are no new directors being appointed during the year. All newly-appointed directors will be given letters explaining the terms of their appointment as well as their duties and obligations. They will also be briefed by Management on the business activities of Fortune REIT and its strategic directions.

Six Board meetings were held during the financial year. The most recent Board meeting was held on 26 January 2010.



# Corporate Governance Report

The matrix of the Board members participation in the various Board and Audit Committee Meetings held in FY2009 is as follows:

Board Members	Board Meetings		Audit Committee Meetings	
	Participation	Attendance/ Number of Meetings held	Participation	Attendance/ Number of Meetings held
Mr. Chiu Kwok Hung, Justin	Chairman	6/6	NA	NA
Mr. Lim Hwee Chiang, John	Member	6/6	NA	NA
Mr. Ip Tak Chuen, Edmond (Alternate – Mr. Ma Lai Chee, Gerald)	Member	6/6	NA	NA
Ms. Yeung, Eirene	Member	5/6	NA	NA
Mr. Lim Lee Meng	Member	6/6	Chairman	4/4
Mr. Cheng Mo Chi, Moses	Member	6/6	Member	4/4
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	Member	6/6	Member	4/4

Note: NA – Not applicable

All Board members are non-executive except for Mr. Lim Hwee Chiang, John who is an executive director.

Principle 2

## BOARD COMPOSITION AND GUIDANCE

*There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.*

The Board presently comprises seven members, three of whom are independent directors. The Chairman of the Board is Mr. Chiu Kwok Hung, Justin.

The composition of the Board is determined using the following principles:

1. the Chairman of the Board should be a non-executive director;
2. the Board should comprise directors with a broad range of commercial experience including expertise in fund management and the property industry; and
3. at least one-third of the Board should comprise independent directors.



# Corporate Governance Report

The Board comprises persons who as a group provide core competencies, such as business and management experience, finance, legal and fund management experience necessary and critical to meet the Manager's objectives. Collectively, their diverse corporate experiences and contributions are invaluable to Fortune REIT. The composition of the Board will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board also reviews the independence of each independent director annually based on the Code's definition of what constitutes an independent director. The Board is of view that the three independent directors (who represent more than one third of the Board) are independent and no individual or small group of individuals dominates the Board's decision-making process.

All directors have been with Fortune REIT for several years and are familiar with their duties and responsibilities as directors. The directors are also provided with regular updates on changes in the relevant laws and regulations to enable them to make informed decisions in discharging their duties and responsibilities.

Principle 3

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

*There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.*

Mr. Chiu Kwok Hung, Justin, as Non-Executive Chairman, plays an instrumental role in developing the business of the Manager and Fortune REIT. He provides the Manager and Fortune REIT with strong leadership and vision.

Mr. Chiu leads Board discussions and deliberations and is responsible for setting the meeting agenda of Board meetings. He ensures that Board meetings are held when necessary. He promotes high standards of corporate governance and maintains effective communication with Unitholders of Fortune REIT.

As a general rule, Board papers are sent to directors in advance before the Board meetings so that they may better understand the matters before the Board meetings and discussions may be focused on matter tabled. Board papers include sufficient financial, business and corporate information for Board members to be apprised on matters to be discussed at Board meetings.

Management staff is invited to attend Board meetings, as and when appropriate, to provide additional insight to matters raised at such meetings.

# Corporate Governance Report

Mr. Chiu is assisted by Ms. Chiu Yu, Justina, the Chief Operating Officer. Ms. Chiu is responsible for the day-to-day management of the Manager and Fortune REIT. Ms. Chiu executes the strategic plans set out by the Board and ensures that the directors are kept updated and informed of Fortune REIT's business via management reports.

The Board is of the view that there are sufficient safeguards and checks to ensure that the decision-making process of the Board is independent and based on collective decision of the directors without any individual exercising any considerable concentration of power or influence.

## Principle 4 **BOARD MEMBERSHIP**

*There should be a formal and transparent process for the appointment of new directors to the Board.*

As the Manager is not itself a listed entity, the Manager does not consider it necessary for the Board to establish a nominating committee. A director of the Manager is appointed on the principles outlined earlier in this report, and his/her ability to contribute to the proper guidance of the Manager in its management of Fortune REIT.

In its search and nomination for new directors, if required, the Board will identify the relevant or desirable skills and experience, and engage search companies as well as networking contacts to identify and shortlist candidates, to spread its reach for the best person for the role.

## Principle 5 **BOARD PERFORMANCE**

*There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board*

The Manager believes that contributions from each director go beyond his/her attendances at Board and committee meetings. The Board will consider the implementation of a formal assessment of the Board.

## Principle 6 **ACCESS TO INFORMATION**

*In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.*

Management provides the Board with timely and adequate information on Board matters and issues requiring the Board's deliberations. All directors are also provided with ongoing reports relating to the operational and financial performance of Fortune REIT to enable them to exercise effective oversight over Fortune REIT's operational and financial performance.

Board meetings for each year are scheduled in advance to facilitate directors' individual administrative arrangements in respect of ongoing commitments.



# Corporate Governance Report

## REMUNERATION MATTERS

Principle 7

### **REMUNERATION MATTERS**

*There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.*

Principle 8

### **LEVEL AND MIX OF REMUNERATION**

*The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.*

Principle 9

### **DISCLOSURE ON REMUNERATION**

*Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.*

Fortune REIT, as a trust, is externally managed by the Manager which has experience and well-qualified management personnel to manage the operational matters of the Manager and Fortune REIT. Remuneration of the directors and officers of the Managers are not paid out of the trust property of Fortune REIT, but are paid directly by the Manager from the fees it receives.



## ACCOUNTABILITY AND AUDIT

Principle 10

### **ACCOUNTABILITY**

*The Board should present a balanced and understandable assessment of the company's performance, position and prospects.*

In presenting the annual financial statements and quarterly announcements to Unitholders, it is the aim of the Board to provide Unitholders with a balanced and understandable assessment of Fortune REIT's financial position and prospects. Management will provide the Board with complete and adequate information in a timely manner through regular updates on Fortune REIT's financial results as well as market trends and business developments involving Fortune REIT.

Principle 11

### **AUDIT COMMITTEE**

*The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.*

The Board has established an Audit Committee to assist it in discharging its responsibilities.

The Audit Committee is appointed by the Board from among its members. The Audit Committee comprises three members, all of whom (including the Chairman) are independent directors. The members of the Audit Committee are Mr. Lim Lee Meng, Mr. Cheng Mo Chi, Moses and Mrs. Sng Sow-Mei (alias Poon Sow Mei). The Audit Committee meets at least four times a year.

All members of the Audit Committee have many years of experience in senior management positions in both the financial and industrial sectors. The Board is of the view that the Audit Committee members, having accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities.

Four Audit Committee meetings were held during the financial year. The most recent Audit Committee meeting was held on 26 January 2010.

The role of the Audit Committee is to monitor and evaluate the effectiveness of the Manager's internal controls. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports. The Audit Committee is responsible for the nomination of external auditors and internal auditors, and reviewing the adequacy of existing audits in respect of cost, scope and performance. The Audit Committee meets with the external auditors, and with the internal auditors, without the presence of the management, at least annually.



# Corporate Governance Report

The Audit Committee's responsibilities also include:

1. reviewing external and internal audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by management;
2. monitoring procedures in place to ensure compliance with applicable legislation, the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the guidelines for real estate investment trust of the Code on Collective Investment Schemes (the "Property Fund Guidelines") issued by the Monetary Authority of Singapore ("MAS");
3. reviewing and approving the financial statements and auditors' report;
4. monitoring the procedures established to regulate Related Party Transactions (as defined below), including ensuring compliance with the provisions of the Listing Manual relating to transactions between the Trustee (as the trustee of Fortune REIT) and an "interested person", and the provisions of the Property Fund Guidelines relating to transactions between the Trustee (as the trustee of Fortune REIT) and an "interested party" (both such types of transactions constituting Related Party Transactions).

The Audit Committee is authorised to investigate any matters within its terms of reference. It is entitled to full access to and co-operation by Management and enjoys full discretion to invite any director or executive officer of the Manager to attend its meetings. The Audit Committee has full access to reasonable resources to enable it to discharge its functions properly.

The Audit Committee has undertaken a review of all non-audit services provided by the external auditors during the year under review and is satisfied that such services would not, in the Audit Committee's opinion, affect the independence of the external auditors.

The Audit Committee has put in place a whistle blowing programme as recommended under the Code. Under this programme, the Audit Committee reviews arrangements, by which staff of the Manager may, in confidence, raise concerns about possible improprieties on matters of financial reporting or other matters. The objective is to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action. Details of the whistle blowing programme and arrangements have been made available to all employees of the Manager.



# Corporate Governance Report

Principle 12

## **INTERNAL CONTROLS**

*The Board should ensure that the Management maintains a sound system of internal controls to safeguard the Unitholders' investments and the company's assets.*

The Manager has put in place a system of internal controls of procedures and processes to safeguard Fortune REIT's assets, Unitholders' interest as well as to manage risk.

The Audit Committee reviews and reports to the Board on the adequacy of a sound system of controls, including financial, operational and compliance controls, and risk management polices and systems established by Management.

### ***Dealing with Conflict of Interest***

The Manager has instituted the following procedures to deal with potential conflict of interest issues which the Manager may encounter in managing Fortune REIT:

1. The Manager will be a dedicated manager to Fortune REIT and will not manage any other real estate investment trust which invests in the same type of properties as Fortune REIT or be involved in any other real property business.
2. The entry into any Related Party Transaction must be reviewed and/or approved by the Audit Committee by a majority vote.
3. At least one-third of the Board shall comprise independent directors.

It is also provided in the Trust Deed that if the Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the Trustee for and on behalf of Fortune REIT with a related party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) which shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee (as trustee of Fortune REIT) has a prima facie case against the party allegedly in breach under such agreement, the Manager shall be obliged to take appropriate action in relation to such agreements.

The directors of the Manager have a duty to ensure that the Manager so complies. Notwithstanding the foregoing, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for and on behalf of Fortune REIT with a related party of the Manager and the Trustee may take such action as it deems necessary to protect the rights of Unitholders and/or which is in the interests of Unitholders. Any decision by the Manager not to take action against a related party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such related party.

Under the Trust Deed, the Manager and its associates are prohibited from voting at or being part of a quorum for any meeting of Unitholders convened to approve any matter in which the Manager or any of its associates has a material interest in the business to be conducted.



# Corporate Governance Report

## **Review Procedures for Related Party Transactions**

In general, the Manager has established internal control procedures to ensure that all future transactions involving the Trustee (as trustee of Fortune REIT) and whether by itself or through the property companies which own the investment properties forming the portfolio of Fortune REIT or other single purpose companies or a related party of the Manager or Fortune REIT are undertaken on an arm's length basis and on normal commercial terms, and will not be prejudicial to the interests of Fortune REIT and the Unitholders. As a general rule, the Manager must demonstrate to the Audit Committee that such transactions satisfy the foregoing criteria, which may entail obtaining (where practicable) quotations from parties unrelated to the Manager, or obtaining one or more valuations from independent professional valuers (in accordance with the Property Fund Guidelines).

In addition, the following procedures will be undertaken:

1. transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding S\$100,000 in value but below 3.0% of the value of Fortune REIT's net tangible assets will be subject to review by the Audit Committee at regular intervals;
2. transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding 3.0% but below 5.0% of the value of Fortune REIT's net tangible assets will be subject to the review and approval of the Audit Committee. Such approval shall only be given if the transactions are on normal commercial terms and are consistent with similar types of transactions made by the Trustee (as trustee of Fortune REIT) with third parties which are unrelated to the Manager; and
3. transactions (either individually or as part of a series or if aggregated with other transactions involving the same related party during the same financial year) equal to or exceeding 5.0% of the value of Fortune REIT's net tangible assets will be reviewed and approved, on the basis described in the preceding paragraph, by the Audit Committee which may, as it deems fit, request advice on the transaction from independent sources or advisers, including the obtaining of valuations from independent professional valuers. Further, under the Listing Manual and the Property Fund Guidelines, such transactions would have to be approved by the Unitholders at a meeting of Unitholders.

Where matters concerning Fortune REIT relate to transactions entered into or to be entered into by the Trustee (as trustee of Fortune REIT) with a related party of the Manager or Fortune REIT, the Trustee is required to consider the terms of such transactions to satisfy itself that such transactions are conducted on an arm's length basis and on normal commercial terms, are not prejudicial to the interests of Fortune REIT and the Unitholders, and are in accordance with all applicable requirements of the Property Fund Guidelines and/or the Listing Manual relating to the transaction in question.



# Corporate Governance Report

Further, the Trustee (as trustee of Fortune REIT) has the ultimate discretion under the Trust Deed to decide whether or not to enter into a transaction involving a related party of the Manager or Fortune REIT. If the Trustee (as trustee of Fortune REIT) is to sign any contract with a related party of the Manager or Fortune REIT, the Trustee will review the contract to ensure that it complies with the requirements relating to interested party transactions in the Property Fund Guidelines (as may be amended from time to time) and the provisions of the Listing Manual relating to interested person transactions (as may be amended from time to time) as well as such other guidelines as may from time to time be prescribed by the MAS and the SGX-ST to apply to real estate investment trusts.

## ***Role of the Audit Committee for Related Party Transactions and Internal Control Procedures***

All Related Party Transactions are subject to regular periodic reviews by the Audit Committee. The Manager's internal control procedures are intended to ensure that Related Party Transactions are conducted on an arm's length basis and on normal commercial terms and are not prejudicial to Unitholders.

The Manager maintains a register to record all Related Party Transactions (and the bases, including any quotations from unrelated parties and independent valuations obtained to support such bases, on which they are entered into) which are entered into by Fortune REIT. The Manager incorporates into its internal audit plan a review of all Related Party Transactions entered into by Fortune REIT. The Audit Committee reviews the internal audit reports to ascertain that the guidelines and procedures established to monitor Related Party Transactions have been complied with. In addition, the Trustee also has the right to review such audit reports to ascertain that the Property Fund Guidelines have been complied with.

The Audit Committee periodically reviews all Related Party Transactions to ensure compliance with the Manager's internal control procedures and with the relevant provisions of the Listing Manual and the Property Fund Guidelines. The review includes the examination of the nature of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee. If a member of the Audit Committee has an interest in a transaction, he is required to abstain from participating in the review and approval process in relation to that transaction.

The Manager discloses in Fortune REIT's annual report the aggregate value of Related Party Transactions entered into during the relevant financial period/year.

The Audit Committee, with the assistance of the internal and external auditors, have reviewed, and the Board is satisfied with, the adequacy of Fortune REIT's and the Manager's internal controls, including financial, operational and compliance controls, and risk management systems.



# Corporate Governance Report

Principle 13

## **INTERNAL AUDIT**

*The company should establish an internal audit function that is independent of the activities it audits.*

The internal audit function of the Manager is out-sourced to BDO Limited, a member firm of BDO International. The internal auditor reports directly to the Audit Committee on audit matters and to the Board on administrative matters.

The Audit Committee reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the internal auditor has adequate resources to perform its functions and has to the best of its ability, maintained its independence from the activities that it audits.

The Audit Committee is satisfied that the internal auditor has met the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

## **COMMUNICATION WITH UNITHOLDERS**

Principle 14

## **COMMUNICATION WITH UNITHOLDERS**

*Companies should engage in regular, effective and fair communication with Unitholders*

The Listing Manual of the SGX-ST requires that a listed entity discloses to the market matters that would be likely to have a material effect on the price of the entity's securities. The Manager upholds a strong culture of continuous disclosure and transparent communication with Fortune REIT Unitholders and the investing community. The Manager's Chief Operating Officer, together with the Investor Relations Manager oversees this function. The Manager's disclosure policy requires timely and full disclosure of all material information relating to Fortune REIT by way of public releases or announcements through the SGX-ST via SGXNET at the first instance and then including the release on Fortune REIT's website at [www.fortunereit.com](http://www.fortunereit.com).

The Manager also conducts regular briefings for analysts and media representatives, which will generally coincide with the release of Fortune REIT's results. During these briefings, Management will review Fortune REIT's most recent performance as well as discuss the business outlook for Fortune REIT. In line with the Manager's objective of transparent communication, briefing materials are released through the SGX-ST via SGXNET and also made available at Fortune REIT's website.

The Manager pursues opportunities to educate and keep retail investors informed of the emergence of the real estate investment trust industry through seminars such as those organised by the SGX-ST and the Real Estate Developers' Association of Singapore.



# Corporate Governance Report

Principle 15

## **GREATER UNITHOLDERS PARTICIPATION**

*Companies should encourage greater Unitholder participation at AGMs and allow Unitholders the opportunity to communicate their views on various matters affecting the company.*

With effect from 1 January 2010, all real estate investment trusts have to hold annual general meetings (“AGMs”). The AGMs would provide Unitholders a formal communication channel with the Managers. Unitholders are encouraged to attend the AGM. The Chairman of the Audit Committee and the auditors would be in attendance at the AGM to answer questions from Unitholders.

## **DEALINGS IN FORTUNE REIT UNITS**

In general, the Manager’s policy encourages directors and employees of the Manager to hold Units but prohibits them from dealing in such Units:

1. during the period commencing one month before the public announcement of Fortune REIT’s annual, semi-annual and as applicable, quarterly results and (where applicable) property valuation and ending on the date of announcement of the relevant results; and
2. at any time whilst in possession of price sensitive information.

In addition, the Manager has given an undertaking to the MAS that it will announce to the SGX-ST the particulars of its holdings in the Units and any changes thereto within two business days after the date on which it acquires or disposes of any Units, as the case may be. The directors and employees of the Manager have been directed to refrain from dealing in Units for short-term considerations. The Manager has also undertaken that it will not deal in the Units during the period commencing one month before the public announcement of Fortune REIT’s annual, semi-annual and as applicable, quarterly results and (where applicable) property valuation, and ending on the date of announcement of the relevant results.



# Corporate Governance Report

## **RISK ASSESSMENT AND MANAGEMENT OF BUSINESS RISK**

Effective risk management is a fundamental part of Fortune REIT's business strategy. Recognising and managing risk is central to the business and to protecting Unitholders' interests and value. Fortune REIT operates within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed to understand the risks involved. Responsibility for managing risk lies initially with the business unit concerned, working within the overall strategy outlined by the Board.

The Board meets quarterly or more often if necessary and reviews the financial performance of Fortune REIT. The Board also reviews the risks to the assets of Fortune REIT, and acts upon any comments of the auditors of Fortune REIT. In assessing business risk, the Board considers the economic environment and the property industry risk. Management meets weekly to review the operations of Fortune REIT and discuss continuous disclosure issues.

Key risks, control measures and management actions are continually identified, reviewed and monitored by Management as part of Fortune REIT's enterprise-wide risk management framework. The internal auditor assists and guides Management in the formulation of risk policies and processes to effectively identify, evaluate and manage significant risks.



# Report and Financial Statements

	Page
<b>Report of the Trustee</b>	60
<b>Statement by the Manager</b>	61
<b>Independent Auditors' Report</b>	62
<b>Statements of Financial Position</b>	64
<b>Statements of Comprehensive Income</b>	66
<b>Statements of Changes in Unitholders' Funds</b>	67
<b>Consolidated Statement of Cash Flows</b>	69
<b>Notes to the Financial Statements</b>	70



# Report of the Trustee

HSBC Institutional Trust Services (Singapore) Limited (the “Trustee”) is under a duty to take into custody and hold the assets of Fortune Real Estate Investment Trust (“Fortune REIT”) held by it or through its property companies (“Group”, which shall mean Fortune REIT and its property companies) in trust for the holders of Units (the “Unitholders”) in Fortune REIT. In accordance with the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes (collectively referred to as the “laws and regulations”), the Trustee shall monitor the activities of ARA Asset Management (Singapore) Limited (“the Manager”) for compliance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed dated 4 July 2003 (as amended) between the Trustee and the Manager (the “Trust Deed”) in each annual accounting year and report thereon to Unitholders in an annual report which shall contain the matters prescribed by the laws and regulations and the Trust Deed.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed Fortune REIT and the Group during the financial year covered by these financial statements set out on pages 64 to 118 in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed, laws and regulations and otherwise in accordance with the provisions of the Trust Deed.

For and on behalf of the Trustee,

**HSBC Institutional Trust Services (Singapore) Limited**



**John van Verre**

*Director*

Singapore

26 January 2010

# Statement by the Manager

In the opinion of the directors of ARA Asset Management (Singapore) Limited, the consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in Unitholders' funds of Fortune Real Estate Investment Trust ("Fortune REIT") as set out on pages 64 to 118, are properly drawn up in accordance with the provisions of the Trust Deed and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of Fortune REIT as at 31 December 2009, and of the results and changes in Unitholders' funds of the Group and of Fortune REIT and cash flows of the Group for the financial year then ended. At the date of this statement, there are reasonable grounds to believe that Fortune REIT will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager,

**ARA Asset Management (Singapore) Limited**



**Lim Hwee Chiang, John**

*Director*

Singapore

26 January 2010



# Independent Auditors' Report

## To the Unitholders of Fortune Real Estate Investment Trust

We have audited the financial statements of Fortune Real Estate Investment Trust ("Fortune REIT") and its subsidiaries ("the Group") which comprise the statements of financial position of the Group and Fortune REIT as at 31 December 2009, and the statements of comprehensive income and the statements of changes in unitholders' funds of the Group and of Fortune REIT and the statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 64 to 118.

## Manager's and Trustee's Responsibility for the Financial Statements

ARA Asset Management (Singapore) Limited (The "Manager" of Fortune REIT) and HSBC Institutional Trust Services (Singapore) Limited (The "Trustee" of Fortune REIT) are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Trust Deed and Singapore Financial Reporting Standards. This responsibility includes: devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# Independent Auditors' Report

## Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in unitholders' funds of Fortune REIT are properly drawn up in accordance with the provisions of the Trust Deed and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of Fortune REIT as at 31 December 2009, and of the results and changes in unitholders' funds of the Group and of Fortune REIT and cash flows of the Group for the financial year ended on that date.

*Deloitte & Touche LLP*

### **Deloitte & Touche LLP**

Public Accountants and  
Certified Public Accountants

Singapore  
26 January 2010



# Statements of Financial Position

As at 31 December 2009

		Group		Fortune REIT	
	Note	2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>					
<b>Current assets</b>					
Cash and cash equivalents	6	515,341	243,361	473,233	105,675
Trade and other receivables	7	47,619	36,914	85,721	162,156
Total current assets		562,960	280,275	558,954	267,831
<b>Non-current assets</b>					
Investments in property companies	8	–	–	5,470,134	3,939,224
Investment properties	9	11,500,000	8,602,000	–	–
Plant and equipment	10	44	117	–	–
Total non-current assets		11,500,044	8,602,117	5,470,134	3,939,224
<b>Total assets</b>		<b>12,063,004</b>	<b>8,882,392</b>	<b>6,029,088</b>	<b>4,207,055</b>
<b>Current liabilities</b>					
Trade and other payables	11	276,474	194,460	16,946	5,671
Borrowings <sup>(a)</sup>	12	2,786,286	–	–	–
Derivative liabilities	13	27,097	11,473	–	–
Provision for taxation		7,079	9,209	2,849	2,726
Total current liabilities		3,096,936	215,142	19,795	8,397
<b>Non-current liabilities</b>					
Borrowings	12	–	2,342,663	–	–
Derivative liabilities	13	415	53,446	–	–
Deferred tax liabilities	14	132,991	114,777	–	–
Total non-current liabilities		133,406	2,510,886	–	–
<b>Total liabilities</b>		<b>3,230,342</b>	<b>2,726,028</b>	<b>19,795</b>	<b>8,397</b>
<b>Net assets</b>		<b>8,832,662</b>	<b>6,156,364</b>	<b>6,009,293</b>	<b>4,198,658</b>

(a) Fortune REIT has entered into a loan agreement to refinance the term loan and revolving loan facility. Please refer to Note 12.

# Statements of Financial Position

As at 31 December 2009

	Note	Group		Fortune REIT	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>UNITHOLDERS' FUNDS</b>					
<b>Equity and reserves</b>					
Issued equity	15	<b>6,308,340</b>	4,370,531	<b>6,308,340</b>	4,370,531
Unit issue costs	16	<b>(271,593)</b>	(173,097)	<b>(271,593)</b>	(173,097)
Hedging reserve	13	<b>(27,512)</b>	(64,919)	–	–
Accumulated profits		<b>2,823,427</b>	2,023,849	<b>(27,454)</b>	1,224
<b>Net Unitholders' funds</b>		<b>8,832,662</b>	6,156,364	<b>6,009,293</b>	4,198,658
<b>Units in issue and to be issued ('000)</b>	15	<b>1,661,595</b>	820,819		
<b>Net asset value per Unit (HK\$)</b>	17	<b>5.32</b>	7.50		
<b>Adjusted net asset value per Unit (HK\$)</b>	17	<b>5.33</b>	7.58		

See accompanying notes to financial statements.



# Statements of Comprehensive Income

Year ended 31 December 2009

	Note	Group		Fortune REIT	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Revenue</b>	18	<b>701,354</b>	637,038	<b>340,462</b>	309,005
Property operating expenses	19	<b>(206,694)</b>	(173,894)	–	–
<b>Net property income/dividend income</b>		<b>494,660</b>	463,144	<b>340,462</b>	309,005
Manager's base fee	5	<b>(28,446)</b>	(28,299)	<b>(28,446)</b>	(28,299)
Foreign currency exchange adjustment gain (loss)		<b>25</b>	(172)	<b>25</b>	(172)
Loss on disposal of investment properties					
held for resale		–	(225)	–	–
Interest income		<b>728</b>	7,712	<b>728</b>	7,712
Trust expenses	20	<b>(5,702)</b>	(11,895)	<b>(27,715)</b>	(11,895)
<b>Profit before taxation and borrowing costs and gain on revaluation</b>		<b>461,265</b>	430,265	<b>285,054</b>	276,351
Gain (Loss) on revaluation of investment properties	9	<b>806,283</b>	(1,130,590)	–	–
Borrowing costs	21	<b>(88,159)</b>	(100,711)	–	–
<b>Profit (Loss) before income tax</b>		<b>1,179,389</b>	(801,036)	<b>285,054</b>	276,351
Income tax expenses	22	<b>(66,201)</b>	(53,839)	<b>(122)</b>	(1,355)
<b>Profit (Loss) for the year</b>		<b>1,113,188</b>	(854,875)	<b>284,932</b>	274,996
Other comprehensive income:					
Cash flow hedges	13	<b>37,407</b>	(30,900)	–	–
<b>Other comprehensive income for the year, net of tax</b>		<b>37,407</b>	(30,900)	–	–
<b>Total comprehensive income</b>		<b>1,150,595</b>	(885,775)	<b>284,932</b>	274,996
<b>Amount available for distribution</b>	23, 25	<b>337,841</b>	302,855		
Basic and diluted earnings (loss) per Unit (cents)					
– weighted average	24	<b>110.95</b>	(104.74)		
Adjusted basic earnings per Unit (cents)					
– notional	24	<b>30.59</b>	33.78		
Distribution per Unit (cents)	25	<b>30.20</b>	37.02		

See accompanying notes to financial statements.



# Statements of Changes in Unitholders' Funds

Year ended 31 December 2009

	Note	Issued equity HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Net HK\$'000
<b>GROUP</b>						
Balance at 1 January 2008		4,342,232	(173,097)	(34,019)	3,171,133	7,306,249
Total comprehensive loss for the year		–	–	(30,900)	(854,875)	(885,775)
<b>UNITHOLDERS' TRANSACTIONS</b>						
Creation of Units:						
Manager's base fees paid and payable in Units	15	28,299	–	–	–	28,299
Distribution to Unitholders	25	–	–	–	(292,409)	(292,409)
Increase (Decrease) in net assets resulting from Unitholders' transactions		28,299	–	–	(292,409)	(264,110)
Balance at 31 December 2008		4,370,531	(173,097)	(64,919)	2,023,849	6,156,364
Total comprehensive income for the year		–	–	37,407	1,113,188	1,150,595
<b>UNITHOLDERS' TRANSACTIONS</b>						
Creation of Units:						
Issuance of new units	15	<b>1,888,973</b>	–	–	–	<b>1,888,973</b>
Manager's base fees paid and payable in Units	15	<b>28,446</b>	–	–	–	<b>28,446</b>
Acquisition fees paid in Units	15	<b>20,390</b>	–	–	–	<b>20,390</b>
Distribution to Unitholders	25	–	–	–	<b>(313,610)</b>	<b>(313,610)</b>
Unit issue costs	16	–	<b>(98,496)</b>	–	–	<b>(98,496)</b>
Increase (Decrease) in net assets resulting from Unitholders' transactions		<b>1,937,809</b>	<b>(98,496)</b>	–	<b>(313,610)</b>	<b>1,525,703</b>
Balance at 31 December 2009		<b>6,308,340</b>	<b>(271,593)</b>	<b>(27,512)</b>	<b>2,823,427</b>	<b>8,832,662</b>

# Statements of Changes in Unitholders' Funds

Year ended 31 December 2009

	Note	Issued equity HK\$'000	Unit issue costs HK\$'000	Accumulated profits HK\$'000	Net HK\$'000
<b>FORTUNE REIT</b>					
Balance at 1 January 2008		4,342,232	(173,097)	18,637	4,187,772
Total comprehensive income for the year		–	–	274,996	274,996
<b>UNITHOLDERS' TRANSACTIONS</b>					
Creation of Units:					
Manager's base fees paid and payable in Units	15	28,299	–	–	28,299
Distribution to Unitholders	25	–	–	(292,409)	(292,409)
Increase (Decrease) in net assets resulting from Unitholders' transactions		28,299	–	(292,409)	(264,110)
Balance at 31 December 2008		4,370,531	(173,097)	1,224	4,198,658
Total comprehensive income for the year		–	–	284,932	284,932
<b>UNITHOLDERS' TRANSACTIONS</b>					
Creation of Units:					
Issuance of new units	15	1,888,973	–	–	1,888,973
Manager's base fees paid and payable in Units	15	28,446	–	–	28,446
Acquisition fees paid in Units	15	20,390	–	–	20,390
Distribution to Unitholders	25	–	–	(313,610)	(313,610)
Unit issue costs	16	–	(98,496)	–	(98,496)
Increase (Decrease) in net assets resulting from Unitholders' transactions		1,937,809	(98,496)	(313,610)	1,525,703
Balance at 31 December 2009		6,308,340	(271,593)	(27,454)	6,009,293

See accompanying notes to financial statements.

# Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Group	
	2009	2008
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Profit (Loss) before income tax	1,179,389	(801,036)
Adjustments for:		
Allowance for doubtful debts	2,138	2,078
Changes in fair value of investment properties	(806,283)	1,130,590
Manager's base fees paid by Units	28,446	28,299
Changes in fair value of derivative asset	-	(5,729)
Loss on disposal of investment properties	-	225
Depreciation	74	74
Interest income	(728)	(7,712)
Borrowing costs	88,159	100,711
Amortisation of debt front end fee	8,223	4,025
Operating profit before working capital changes	499,418	451,525
Increase (Decrease) in trade and other receivables	1,861	(3,568)
Increase in trade and other payables	47,221	2,494
Cash generated from operations	548,500	450,451
Income tax paid	(66,286)	(44,889)
Net cash from operating activities	482,214	405,562
<b>Investing activities</b>		
Acquisition of properties (Note 9)	(2,002,743)	-
Upgrading of investment properties	(52,717)	(20,054)
Proceeds from disposal of investment properties	-	1,143
Interest received	728	7,712
Net cash used in investing activities	(2,054,732)	(11,199)
<b>Financing activities</b>		
Proceeds from issue of new units (net of issue costs)	1,810,867	-
Distribution paid	(313,610)	(292,409)
Borrowing costs paid	(88,159)	(100,711)
Drawdown of borrowings	516,000	-
Payment of debt front end fee	(80,600)	-
Net cash from (used in) investing activities	1,844,498	(393,120)
Net increase in cash and cash equivalents	271,980	1,243
Cash and cash equivalents at beginning of the year	243,361	242,118
<b>Cash and cash equivalents at end of the year</b>	<b>515,341</b>	<b>243,361</b>

See accompanying notes to financial statements.

# Notes to the Financial Statements

As at 31 December 2009

These notes form an integral part of the financial statements.

The consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in Unitholders' funds of Fortune REIT for the financial year ended 31 December 2009, were authorised for issue by the Manager and the Trustee on 26 January 2010.

## 1 GENERAL

Fortune Real Estate Investment Trust (known as "Trust" or "Fortune REIT") is a Singapore-domiciled unit trust. The Trust Deed dated 4 July 2003 (as amended) ("Trust Deed") is governed by the laws of the Republic of Singapore. On 4 July 2003, Fortune REIT was declared an authorised unit trust scheme under the Trustees Act, Chapter 337. The Manager and Trustee are ARA Asset Management (Singapore) Limited and HSBC Institutional Trust Services (Singapore) Limited respectively and their registered offices and principal places of business are at 6 Temasek Boulevard, #16-02 Suntec Tower 4, Singapore 038986 and 21 Collyer Quay, #10-01 HSBC Building, Singapore 049320, respectively.

The consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in Unitholders' funds of Fortune REIT are expressed in Hong Kong dollars.

Fortune REIT was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 12 August 2003.

The principal activity of Fortune REIT is to own and invest in a portfolio of retail shopping malls located in Hong Kong through the subsidiaries ("property companies") or other companies whose primary purpose is to hold or own real estate properties, or directly in properties, with the primary objective of producing stable distributions for Unitholders and to achieve long term growth in the net asset value per Unit.

## 1 GENERAL (continued)

Fortune REIT has entered into several service agreements in relation to the management of Fortune REIT and its property operations. The fee structures of these services are as follows:

### (a) *Property management fees*

#### *Property management fee*

Under the Property Management Agreement, the Property Manager, Goodwell-Fortune Property Services Limited, which is a party related to a major Unitholder, will receive from each of the 14 (2008: 11) property companies a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

In respect of City One Shatin Property, the property management services are provided by Paramatta Estate Management Limited, which is not a party related to a major Unitholder. The lease management services and the marketing services are provided by the Property Manager.

Gross property revenue means the amount equivalent to the gross revenue less charge-out collections and car park revenues.

#### *Marketing services*

For the marketing services, the property companies will pay the Property Manager the following commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10.0% of the total licence fee for securing a licence for duration of less than 12 months.

### (b) *Trustee's fees*

The Trustee's fees are 0.03% per annum (subject to a minimum of HK\$50,000 per month) on the value of the real estate properties and are accrued daily and paid monthly in arrears in accordance with the Trust Deed.



# Notes to the Financial Statements

As at 31 December 2009

## 1 GENERAL (continued)

### (c) *Manager's fees*

The Manager is entitled to receive the following remuneration for the provision of asset management services:

#### *Base fee*

Under the Trust Deed, the Manager will receive a base fee from Fortune REIT at 0.3% per annum on the value of the properties. The base fee will be paid quarterly in arrears and in the form of Units in the Trust during the first five years after the Units are listed on SGX-ST. Thereafter, the base fee shall be paid to the Manager in the form of cash/or Units as the Manager may elect.

#### *Performance fee*

Under the Trust Deed, the Manager will receive a performance fee from each property company at 3% of the net property income of the property companies with certain adjustments.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) *Basis of accounting*

The financial statements are prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with Singapore Financial Reporting Standards ("FRSs"), and the applicable requirements of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore ("MAS") and the Trust Deed.

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2009. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and the Trust's accounting policies and has no material effect on the amounts reported for the current or prior years except as disclosed below:

#### *FRS 1 – Presentation of Financial Statements (Revised)*

FRS 1 (2008) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of accounting (continued)

#### *Amendments to FRS 107 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The amendments to FRS 107 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in these amendments.

At the date of authorisation of these financial statements, the following FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Trust were issued but not effective:

- FRS 27 (Revised) Consolidated and Separate Financial Statements; and FRS 103 (Revised) Business Combinations.
- Improvements to Financial Reporting Standards (issued in June 2009)

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of Fortune REIT in the period of their initial adoption.

FRS 27 (Revised) is effective for annual periods beginning on or after 1 July 2009. FRS 103 (Revised) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

Apart from matters of presentation, the principal amendments to FRS 27 that will impact the Group concern the accounting treatment for transactions that result in changes in a parent's interest in a subsidiary. It is likely that these amendments will significantly affect the accounting for such transactions in future accounting periods, but the extent of such impact will depend on the detail of the transactions, which cannot be anticipated. The changes will be adopted prospectively for transactions after the date of adoption of the revised Standard and, therefore, no restatements will be required in respect of transactions prior to the date of adoption.

Similarly, FRS 103 is concerned with accounting for business combination transactions. The changes to the Standard are significant, but their impact can only be determined once the detail of future business combination transactions is known. The amendments to FRS 103 will be adopted prospectively for transactions after the date of adoption of the revised Standard and, therefore, no restatements will be required in respect of transactions prior to the date of adoption.



# Notes to the Financial Statements

As at 31 December 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Fortune REIT and the property companies controlled by Fortune REIT made up to 31 December 2009. Control is achieved when Fortune REIT has the power to govern the financial and operating policies of the property companies so as to obtain benefits from their activities. On acquisition, the assets and liabilities of the relevant property companies are measured at their fair values at the date of acquisition. The results of property companies acquired or disposed of during the year are included in the consolidated profit and loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

In Fortune REIT's financial statements, investments in the property companies are carried at cost less any impairment in net recoverable value.

### (c) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statements of return.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) *Financial liabilities and equity instruments*

#### *Classification as debt or equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

### (e) *Financial assets and liabilities*

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

#### *Effective interest rate method*

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and fixed deposits which are subject to an insignificant risk of changes in value.

#### *Loans and receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.



# Notes to the Financial Statements

As at 31 December 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) *Financial assets and liabilities (continued)*

#### *Trade and other payables*

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

#### *Borrowings*

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

#### *Derivative financial instruments and hedge accounting*

The Group enters into interest rate swaps to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in Note 13 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of the cash flow of its long term borrowings which carry interest rate at floating rates ("cash flow hedge").

#### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other gains and losses.

Amounts recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in Unitholders' Funds are transferred from Unitholders' Funds and included in the initial measurement of the cost of the asset or liability.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) *Financial assets and liabilities (continued)*

#### *Cash flow hedge (continued)*

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and when the forecast transaction is ultimately recognised in profit or loss, such gains and losses are recognised in profit or loss, or transferred from equity and included in the initial measurement of the cost of the asset or liability as described above. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was accumulated in equity is recognised immediately in profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### *Embedded derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### (f) *Unit issue costs*

Costs incurred in relation to the initial public offering, rights issue and equity fund raising and subsequent issues of new Units in Fortune REIT on a stock exchange are charged against the Unitholders' Funds.



# Notes to the Financial Statements

As at 31 December 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) *Plant and equipment*

Plant and equipment are carried at cost, less accumulated depreciation and any impairment losses.

Depreciation is provided on gross carrying amounts in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follows:

Office equipment, furniture and fittings	–	20% to 33.3%
--	---	--------------

Fully depreciated assets still in use are retained in the financial statements.

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### (h) *Investment properties*

Investment properties are held for investment potential and income. Investment properties are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Fair value changes are taken to the profit or loss.

Investment properties are classified as held for resale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The gain or loss arising on the disposal or retirement of investment property is determined as the difference between the sales proceeds and the carrying amount of the investment property and is recognised in profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### (j) *Impairment of tangible assets*

At the end of each of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication of impairment loss. If such indication exists, the recoverable amount of the tangible asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the tangible asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.



# Notes to the Financial Statements

As at 31 December 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **(j) Impairment of tangible assets (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **(k) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **(l) Unit based payments**

Base fee payable to the Manager in the form of Units in Fortune REIT is recorded in Unitholders' Funds when the Units become payable. The corresponding debit balance is taken to profit and loss.

### **(m) Revenue recognition**

Rental income from operating leases is recognised on a straight-line basis over the terms of the relevant lease unless another systematic basis is more representative of the time pattern in which the benefit of use of the leased asset is diminished. Rental compensation under guarantee is recognised over the contractual period of the rental guarantee. Lease incentives granted are recognised as an integral part of the total rental to be received.

Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on a receipt basis. No contingent rentals are recognised if there are uncertainties due to the possible return of amounts received.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **(m) Revenue recognition (continued)**

Charge-out collections, representing mainly air conditioning expenses, management expenses, promotion expenses, government rates and government rents payable by the tenants and licensees are recognised when the services and facilities are provided.

Interest revenue is recognised on a time proportion basis using the effective interest basis on the principal amount outstanding.

Dividend revenue from the property companies is recognised when the right to receive dividend is legally established.

### **(n) Borrowing costs**

Borrowing costs are recognised in profit and loss in the period in which they are incurred.

### **(o) Foreign currency transactions and translation**

The individual financial statements of each entity in the Group are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the financial statements of Fortune REIT are presented in Hong Kong dollars, which is the functional currency of Fortune REIT and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.



# Notes to the Financial Statements

As at 31 December 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Taxation

Taxation on the profits for the period comprises current and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where Fortune REIT and its subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited to the other comprehensive income, except when it relates to items charged or credited directly to Unitholders' Funds, in which case the deferred tax is also dealt with in the Unitholders' Funds.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax liabilities have not been provided on the fair value changes on investment properties as the Manager expects to recover the property value substantially through disposal, the gain of which is not subject to tax.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **(p) Taxation (continued)**

At present, Fortune REIT has not been accorded the tax transparency treatment and income earned will be subject to Singapore income tax at the Trust's level at the prevailing corporate tax rate.

The Ministry of Finance of Singapore ("MOF") has issued a tax ruling on the taxation of Fortune REIT for income earned and expenditure incurred after its initial public offering. Subject to meeting the terms and conditions of tax ruling, the Singapore taxation of Fortune REIT is described below:

#### **(i) Tax-Exempt Income**

Fortune REIT will be exempt from Singapore income tax on the dividends received from the property companies that are distributed out of income (including interest income and gains from the sale of real properties) which have been subject to Hong Kong profits tax at a rate of not less than 15%.

#### **(ii) Taxable Income**

Fortune REIT will be subject to Singapore income tax on dividends received from the property companies that are paid out of income or gains which are not subject to Hong Kong profits tax, and on all income derived from or accrued in Singapore, or received in Singapore from outside Singapore.

#### **(iii) Non-Taxable Capital Gain**

Fortune REIT is not assessable to Singapore Income Tax on the gains from the disposal of investments in the property companies that have been confirmed by MOF to be capital gains.



# Notes to the Financial Statements

As at 31 December 2009

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Manager is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, the Manager is of the opinion that there are no instances of application of judgements or the use of estimation techniques which may have a significant effect on the amounts recognised in the financial statements other than as follows:

### **(i) Valuation of the investment properties**

As described in Note 2(h), investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have determined the fair values using various methods of valuation which involve the making of certain assumptions and the use of estimates. In relying on the valuation reports of the professional valuers, the Manager has exercised judgement in arriving at a value which is reflective of the current market conditions.

### **(ii) Provision for deferred tax liabilities**

As described in Note 2(p), the Manager provides for deferred tax based on its judgement on the probability of the temporary differences not reversing in the foreseeable future. The deferred tax liabilities amount would be affected should unanticipated events, not considered in the Manager's judgement, come about.

## 4 FINANCIAL RISKS AND MANAGEMENT

Exposure to credit, interest rate, liquidity and foreign currency risks arise in the normal course of the Group's business. The Group has guidelines, which set out its overall business strategies and its general risk management philosophy.

### ***Credit risk***

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the property companies, as and when they fall due. The Group has adopted a policy of obtaining deposit to mitigate the risk of financial loss from default.

Trade receivable consists of rental revenue receivable from tenant or counterparty. The Manager has established credit limits for tenants and monitors their balances on an ongoing basis. Credit evaluations are performed by the Property Manager on behalf of the Manager before lease agreements are entered into with tenants. Cash and fixed deposits are placed with reputable financial institutions.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics.

As at 31 December 2009, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset on the statement of financial position.

### ***Interest rate risk***

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Where necessary, the Group adopts an appropriate hedging policy to minimise interest rate exposure. This may involve fixing certain portion of the interest payable on its underlying debt liabilities via financial derivatives or other suitable financial products.



# Notes to the Financial Statements

As at 31 December 2009

## 4 FINANCIAL RISKS AND MANAGEMENT (continued)

### *Interest rate sensitivity*

The sensitivity analysis below has been determined based on the exposure to interest rates for derivative instruments at the end of the reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the financial period in the case of financial instruments that bear interest at floating rates. A range of 25 – 75 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit for the following year would decrease or increase accordingly. This is mainly attributable to the Group's exposure to interest rates on its floating rate borrowings which is not hedged. The following analysis shows the Group's sensitivity to interest rates exposure:

Increase in interest rates basis points by:

	<b>Decrease Group's results</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
25 basis points	<b>253</b>	1,317
50 basis points	<b>506</b>	2,634
75 basis points	<b>759</b>	3,951

Conversely, if the interest rates were to decline, the effect on the Group would be an increase in the Group's result by the amount shown above.

### *Liquidity risk*

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations. In addition, the Manager also monitors and observes the Code on Collective Investment Schemes issued by the MAS concerning limits on total borrowings.

On 15 October 2009, the property companies entered into a term loan and revolving credit facilities of HK\$3,100 million for a term of four years. The HK\$3,100 million loan facility will be used to refinance the borrowings due on 28 June 2010 (Note 12).

## 4 FINANCIAL RISKS AND MANAGEMENT (continued)

### Liquidity risk analysis

As at 31 December 2009, the Group's derivative financial instruments are interest rate swaps with notional amount totaling to HK\$2,348.7 million (2008: HK\$2,348.7 million) with contracted net cash flows due within 4 years (2008: 4 years) from inception date.

The table below analyses the maturity profile of the Group's financial liabilities, based on the undiscounted cash flows.

	On demand or within 1 year HK\$'000	Within 2 to 5 years HK\$'000	Total HK\$'000
<b>Non-derivative financial liabilities</b>			
<i>As at 31 December 2009</i>			
Borrowings from financial institutions	2,864,700	–	2,864,700
Tenants' deposits	74,847	111,638	186,485
Other payables	79,831	–	79,831
<i>As at 31 December 2008</i>			
Borrowings from financial institutions	–	2,348,700	2,348,700
Tenants' deposits	55,521	88,166	143,687
Other payables	45,998	–	45,998
<b>Derivative financial instruments</b>			
<i>As at 31 December 2009</i>			
Net settled:			
Interest rate swap contracts	27,097	415	27,512
<i>As at 31 December 2008</i>			
Net settled:			
Interest rate swap contracts	11,473	53,446	64,919



# Notes to the Financial Statements

As at 31 December 2009

## 4 FINANCIAL RISKS AND MANAGEMENT (continued)

### Foreign currency risk

The Group's entities' functional currency is Hong Kong dollars ("HK\$").

As at 31 December 2009, the carrying amounts of monetary assets denominated in currencies other than the respective Group entities' functional currencies arise from Singapore dollar ("S\$") denominated bank balances and deposits amounting to S\$0.569 million (2008: S\$0.126 million). The foreign currency risk is managed by the Manager on an ongoing basis as well as minimising the bank balance in Singapore dollars.

If HK\$ were to strengthen against S\$ by 5%, 10% and 15%, the Group's results would decrease by:

	Decrease Group's results	
	2009	2008
	HK\$'000	HK\$'000
5%	157	34
10%	314	68
15%	471	102

Conversely, if the HK\$ were to weaken against S\$, the effect on the Group would be an increase in the Group's results by the amount shown above.

## 4 FINANCIAL RISKS AND MANAGEMENT (continued)

### ***Fair value of financial assets, financial liabilities and financial derivative***

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, provisions, borrowings and other liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

The fair values of financial assets, financial liabilities and financial derivatives are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair value of financial derivative instruments is calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is used, based on the applicable yield curve of the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

### ***Capital risk management policies and objectives***

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Unitholders through the optimisation of the debt and Unitholders' funds, and to ensure that all externally imposed capital requirements are complied with.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 12, cash and cash equivalents and Unitholders' funds comprising issued equity, reserves and accumulated profits. The Group is required to maintain a maximum gearing ratio in order to comply with a covenant in a loan agreement with a bank.

The management's strategy remains unchanged from 2008. The Group is in compliance with externally imposed capital requirements for the financial years ended 31 December 2009 and 2008.

# Notes to the Financial Statements

As at 31 December 2009

## 5 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Many of the Group's transactions and arrangements are with related parties and the effects of these on the bases determined between the parties are reflected in these financial statements. The balances are unsecured, free from interest and are repayable on demand.

Significant related party transactions, other than those disclosed elsewhere in the notes to the financial statements:

	Group		Fortune REIT	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Income:				
Base rental	<b>71,333</b>	54,264	-	-
Charge-out collections	<b>21,283</b>	19,163	-	-
Expenses:				
Building management expenses	<b>57,434</b>	53,841	-	-
Management fee and other charges	<b>25,486</b>	27,795	-	-
Car park agency fee	<b>1,665</b>	1,745	-	-
Manager's performance fees	<b>15,299</b>	14,324	-	-
Manager's base fees	<b>28,446</b>	28,299	<b>28,446</b>	28,299
Trustee's fees	<b>2,812</b>	2,893	<b>2,812</b>	2,893

HK\$20.4 million paid in Units to the Manager as acquisition fees for the acquisition of 3 new properties on 16 October 2009 (Note 9).

# Notes to the Financial Statements

As at 31 December 2009

## 6 CASH AND CASH EQUIVALENTS

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	515,341	23,985	473,233	2,468
Fixed deposits with financial institutions	–	219,376	–	103,207
<b>Total</b>	<b>515,341</b>	<b>243,361</b>	<b>473,233</b>	<b>105,675</b>

Effective interest rate and repricing analysis:

	Effective interest rate per annum		Total		Within 1 to 3 months	
	2009	2008	2009	2008	2009	2008
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>						
Fixed deposits with financial institutions	–	0.87	–	219,376	–	219,376
<b>Fortune REIT</b>						
Fixed deposits with financial institutions	–	0.87	–	103,207	–	103,207

The above fixed deposits were placed for a period ranging from 1 day to 90 days.

The cash and cash equivalents which are not denominated in the functional currencies of the respective Group entities are as follows:

	Group and Fortune REIT	
	2009	2008
	HK\$'000	HK\$'000
Denominated in:		
Singapore dollars	3,143	683



# Notes to the Financial Statements

As at 31 December 2009

## 7 TRADE AND OTHER RECEIVABLES

	Group		Fortune REIT	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>(a) Trade receivables</b>				
Outside parties	<b>25,871</b>	22,270	-	-
Less allowances for doubtful trade receivables	<b>(4,216)</b>	(2,380)	-	-
Net	<b>21,655</b>	19,890	-	-
Property companies (dividend receivable)	-	-	-	155,862
Total trade receivables	<b>21,655</b>	19,890	-	155,862
<b>(b) Other receivables and prepayments</b>				
Security deposits	<b>17,119</b>	15,115	-	-
Other receivables	<b>54</b>	359	<b>11</b>	220
GST receivables	<b>7,296</b>	-	<b>7,296</b>	-
Prepayments	<b>1,495</b>	1,550	<b>78,414</b>	6,074
Total other receivables and prepayments	<b>25,964</b>	17,024	<b>85,721</b>	6,294
Total trade and other receivables	<b>47,619</b>	36,914	<b>85,721</b>	162,156

There is no credit period given on billing for rental of properties. No interest is charged on the trade receivables for the first 10 days (2008: 10 days) from the date of the invoice.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK\$21.7 million (2008: HK\$19.9 million) which are past due at the reporting date for which the Group has not provided for doubtful debts as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 30 days (2008: 30 days).

# Notes to the Financial Statements

As at 31 December 2009

## 7 TRADE AND OTHER RECEIVABLES (continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to deposits received from tenants. Full provision will be made on the balance overdue for 90 days (2008: 90 days) after setting off the relevant tenants' deposits. Accordingly, the Manager believes that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables with a total balance of HK\$4.2 million (2008: HK\$2.4 million). The impairment recognised represents the difference between the carrying amount of the specific trade receivables and present value of expected liquidation proceeds. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	Group	
	2009	2008
	HK\$'000	HK\$'000
At beginning of year	2,380	321
Amounts written off during the year	(302)	(19)
Increase in allowance recognised in profit and loss	2,138	2,078
At end of year	4,216	2,380

There are no trade and other receivables which are not denominated in the functional currencies.

## 8 INVESTMENTS IN PROPERTY COMPANIES

	Fortune REIT	
	2009	2008
	HK\$'000	HK\$'000
Unquoted, ordinary shares, at cost	3,103,750	2,446,240
Unquoted, preference shares, at cost	2,366,384	1,492,984
Total	5,470,134	3,939,224

# Notes to the Financial Statements

As at 31 December 2009

## 8 INVESTMENTS IN PROPERTY COMPANIES (continued)

Subsidiaries of Fortune REIT:

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT		Cost of investment by Fortune REIT		Principal activities in Hong Kong
		2009	2008	2009	2008	
		%	%	HK\$'000	HK\$'000	
Mightypattern Limited	Hong Kong	100	100	1,519,004	1,519,004	Property investment in City One Shatin Property
Marvel Points Investments Limited <sup>(1)</sup>	British Virgin Islands	100	–	1,093,910	–	Property investment in Metro Town
Vision Million Limited	British Virgin Islands	100	100	938,809	938,809	Property investment in The Metropolis Mall
Poko Shine Limited	Hong Kong	100	100	487,258	487,258	Property investment in Ma On Shan Plaza
Waldorf Realty Limited	Hong Kong	100	100	395,749	395,749	Property investment in Waldorf Garden Property
Genuine Joy Limited	British Virgin Islands	100	100	328,000	–	Property investment in Caribbean Bazaar
Yee Pang Realty Limited	Hong Kong	100	100	152,832	152,832	Property investment in Jubilee Court Shopping Centre
Art Full Resources Limited	Hong Kong	100	100	130,431	130,431	Property investment in The Household Center



# Notes to the Financial Statements

As at 31 December 2009

## 8 INVESTMENTS IN PROPERTY COMPANIES (continued)

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT		Cost of investment by Fortune REIT		Principal activities in Hong Kong
		2009	2008	2009	2008	
		%	%	HK\$'000	HK\$'000	
Quick Switch Limited	British Virgin Islands	100	100	115,157	115,157	Property investment in Smartland
Full Belief Limited	British Virgin Islands	100	100	109,000	–	Property investment in Hampton Loft
Team Challenge Limited	British Virgin Islands	100	100	95,620	95,620	Property investment in Tsing Yi Square Property
Ace Courage Limited	British Virgin Islands	100	100	56,059	56,059	Property investment in Centre de Laguna Property
Partner Now Limited	British Virgin Islands	100	100	30,810	30,810	Property investment in Lido Garden Property
Proven Effort Limited	British Virgin Islands	100	100	17,495	17,495	Property investment in Rhine Garden Property
Subsidiaries of Mightypattern Limited:						
Maxon Investment Limited	Hong Kong	100	100	–	–	Financing
Pinelink Investment Limited <sup>(2)</sup>	British Virgin Islands	100	100	–	–	Investment holding
Million Nice Development Limited	Hong Kong	100	100	–	–	Property investment

# Notes to the Financial Statements

As at 31 December 2009

## 8 INVESTMENTS IN PROPERTY COMPANIES (continued)

Name of company	Country of incorporation	Effective equity interest held by Fortune REIT		Cost of investment by Fortune REIT		Principal activities in Hong Kong
		2009	2008	2009	2008	
		%	%	HK\$'000	HK\$'000	
Subsidiaries of Waldorf Realty Limited:						
Prostar Resources Limited <sup>(2)</sup>	British Virgin Islands	100	100	–	–	Investment holding
Colour Sky International Limited	Hong Kong	100	100	–	–	Property investment
Subsidiaries of Marvel Point Investments Limited:						
Mega Gain Resources Limited <sup>(1)</sup>	Hong Kong	100	–	–	–	Property investment
Total				5,470,134	3,939,224	

Notes:

(1) Acquired on 15 October 2009.

(2) No audit required in country of incorporation.

Fortune REIT holds 100% of the ordinary shares and redeemable preference shares in all the subsidiaries. The interest in subsidiaries were pledged as securities to the banks for the loan facilities granted by these banks to the subsidiaries as disclosed in Note 12.

## 8 INVESTMENTS IN PROPERTY COMPANIES (continued)

The redeemable preference shares are redeemable at the option of the subsidiaries and they have the following terms:

- (a) They do not carry any right to dividend;
- (b) They are not participating (i.e. there is no right to participate in the surplus profits of the company after payment of dividend to the holders of the ordinary shares);
- (c) They shall not have any voting rights at general meetings of the company;
- (d) In the event of a winding up of the subsidiary, the holders of the redeemable preference shares shall have priority over the holders of the ordinary shares as to repayment of capital and premium paid on the issue of such redeemable preference shares, but that the holders of the redeemable preference shares shall not be entitled to participate in the surplus assets (if any) of the company; and
- (e) Each redeemable preference share shall be redeemable at any time at the option of the subsidiary at a redemption price equal to the issue price thereof.

All the property companies are audited by Deloitte Touche Tohmatsu, Hong Kong.

## 9 INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>8,602,000</b>	9,713,904
During the year:		
Acquisition of properties <sup>(1)</sup>	<b>2,039,000</b>	–
Disposal of investment properties	–	(1,368)
Capital expenditure incurred	<b>52,717</b>	20,054
Fair value changes	<b>806,283</b>	(1,130,590)
At end of year	<b>11,500,000</b>	8,602,000



# Notes to the Financial Statements

As at 31 December 2009

## 9 INVESTMENT PROPERTIES (continued)

Details of the investment properties as at the end of reporting period are set out below:

Description of property	Tenure of land	Term of lease	Remaining term of lease	Location	Valuation	
					2009 HK\$'000	2008 HK\$'000
City One Shatin Property	Leasehold	99 years	37.5 years	No 1 & 2 Ngan Shing Street, 6 Lok Shing Street, Shatin New Territories, Hong Kong	<b>3,548,000</b>	3,259,000
Ma On Shan Plaza	Leasehold	55.5 years	37.5 years	No 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong	<b>1,974,000</b>	1,766,000
Metro Town <sup>(1)</sup>	Leasehold	50 years	43 years	No 8 King Ling Road, Tseung Kwan O, Hong Kong	<b>1,544,000</b>	–
The Metropolis Mall	Leasehold	50.5 years	37.5 years	No 6-10 Metropolis Drive, The Metropolis Mall, Kowloon	<b>1,413,000</b>	1,342,000
Waldorf Garden Property	Leasehold	99 years	37.5 years	No 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong	<b>810,000</b>	743,000

# Notes to the Financial Statements

As at 31 December 2009

## 9 INVESTMENT PROPERTIES (continued)

Description of property	Tenure of land	Term of lease	Remaining term of lease	Location	Valuation	
					2009 HK\$'000	2008 HK\$'000
Caribbean Bazaar <sup>(1)</sup>	Leasehold	50 years	37.5 years	No 1 Kin Tung Road, Tung Chung, New Territories, Hong Kong	<b>449,000</b>	–
Smartland	Leasehold	149 years	37.5 years	No 16 Tsuen Wan Street, Tsuen Wan, New Territories, Hong Kong	<b>376,000</b>	350,000
Tsing Yi Square Property	Leasehold	99 years	37.5 years	No 7-19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong	<b>314,000</b>	288,000
Jubilee Court Shopping Centre	Leasehold	149 years	37.5 years	No 2-18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong	<b>304,000</b>	285,000
The Household Center	Leasehold	50 years	38.5 years	No 8 King Lai Path, Kwai Chung, New Territories, Hong Kong	<b>274,000</b>	258,000

# Notes to the Financial Statements

As at 31 December 2009

## 9 INVESTMENT PROPERTIES (continued)

Description of property	Tenure of land	Term of lease	Remaining term of lease	Location	Valuation	
					2009 HK\$'000	2008 HK\$'000
Centre de Laguna Property	Leasehold	58 years	37.5 years	93/99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong	<b>166,000</b>	157,000
Hampton Loft <sup>(1)</sup>	Leasehold	50 years	40 years	No 11 Hoi Fan Road, Kowloon, Hong Kong	<b>164,000</b>	–
Lido Garden Property	Leasehold	149 years	37.5 years	No 41-63 Castle Peak Road, Sham Tseng Tsuen Wan, New Territories, Hong Kong	<b>100,000</b>	94,000
Rhine Garden Property	Leasehold	57 years	37.5 years	No 38 Castle Peak Road, Sham Tseng Tsuen Wan, New Territories, Hong Kong	<b>64,000</b>	60,000
<b>Total</b>					<b>11,500,000</b>	8,602,000

- (1) On 15 October 2009, Fortune REIT acquired three investment properties in Hong Kong. One of the properties was acquired through the purchase of a 100% interest in the issued share capital of Marvel Points Investment Limited and its subsidiary, Mega Gain Resources Limited (Note 8) for a cash consideration of HK\$1,452 million with adjustment on the net current asset/liabilities as at completion date of acquisition (collectively the "Acquisition"). The Acquisition was part financed by net proceeds from the rights issue (Note 15) as well as a term loan of HK\$480 million (Note 12). This Acquisition has been accounted for as acquisition of assets as they do not meet the definition of a business combination.

# Notes to the Financial Statements

As at 31 December 2009

## 9 INVESTMENT PROPERTIES (continued)

The net assets acquired in the Acquisitions are as follows:

	HK\$'000
Net assets acquired:	
Investment properties	2,039,000
Plant and equipment	1
Cash and cash equivalents	5,450
Trade and other receivables	14,829
Trade and other payables	(34,793)
Provision for taxation	(13,631)
Deferred tax liabilities	(2,663)
Total consideration, satisfied by cash	2,008,193
Net cash outflow arising on acquisition:	
Cash consideration paid	(2,008,193)
Cash and cash equivalents acquired	5,450
	(2,002,743)

On 31 December 2009 and 31 December 2008, independent valuation was undertaken by Savills Valuation and Professional Services Limited and Knight Frank Petty Limited on the above investment properties respectively. The respective firms are independent valuers having appropriate professional qualifications and experiences in the valuation of similar properties in the relevant locations. The valuations for the 14 properties (2008: 11 properties) were arrived at using the Income Capitalisation Approach and counter-checked by the Direct Comparison Approach. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors.

The investment properties (except Waldorf Garden Property and Jubilee Court Shopping Centre) with total fair value of HK\$10,386 million (2008: HK\$7,574 million) have been mortgaged as collaterals for credit facilities granted by the banks.



# Notes to the Financial Statements

As at 31 December 2009

## 10 PLANT AND EQUIPMENT

	Office equipment, furniture and fittings	
	2009 HK\$'000	2008 HK\$'000
<b>Group</b>		
Cost:		
At beginning of year	411	411
Acquisition of properties (Note 9)	1	–
At end of year	412	411
Accumulated depreciation:		
At beginning of year	294	220
Depreciation for the year	74	74
At end of year	368	294
Carrying value:		
At end of year	44	117

# Notes to the Financial Statements

As at 31 December 2009

## 11 TRADE AND OTHER PAYABLES

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Trade payables				
Tenants' deposits				
– Outside parties	178,610	142,938	–	–
– Related parties (Note 5)	7,875	749	–	–
Rental received in advance				
– Outside parties	10,158	4,775	–	–
Total trade payables	196,643	148,462	–	–
(b) Other payables				
Trustee's fee	564	491	564	491
Manager's fee	–	624	–	624
Operating expenses	61,721	40,718	1,768	1,174
Interest payable	2,176	783	–	–
Others	15,370	3,382	14,614	3,382
Total other payables	79,831	45,998	16,946	5,671
Total trade and other payables	276,474	194,460	16,946	5,671

Trade payables comprise deposits refundable to tenants upon cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The refundable deposit to tenants is within 30 days (2008: 30 days).

Trade and other payables which are not denominated in the functional currencies of the respective Group entities are as follows:

	Group and Fortune REIT	
	2009	2008
	HK\$'000	HK\$'000
Denominated in:		
Singapore dollars	547	1,505

# Notes to the Financial Statements

As at 31 December 2009

## 12 BORROWINGS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Current portion of long-term borrowings:		
Term loans	2,864,700	–
Less: Unamortised front end fee	(78,414)	–
Net	2,786,286	–
Long-term borrowings:		
Term loans	–	2,348,700
Less unamortised front end fee	–	(6,037)
Net	–	2,342,663

The secured term loans comprise the following:

- (1) In relation to the term loan and revolving credit facility of HK\$2,613.7 million under the facility agreement for a term of five years from 28 June 2005 (“Existing Facilities”), the total facilities drawn down by the properties companies as at 31 December 2009 was HK\$2,384.7 million (2008: HK\$2,348.7 million). The loan facilities are secured by, inter alia, a mortgage over certain investment properties with a fair value of HK\$8,229 million as at 31 December 2009 (2008: HK\$7,574 million).

It bears interest at Hong Kong Interbank Offer Rate (“HIBOR”) plus a margin. The margin is 0.28% for the first year, 0.30% for the second year, 0.34% for the third year, 0.36% for the fourth year and 0.42% for the fifth year.

- (2) On 15 October 2009, the property companies entered into a term loan and revolving credit facility of HK\$3,100 million for a term of four years (the “New Facility”), out of which HK\$480 million has been drawn as at 31 December 2009 and is repayable on 28 June 2010. The HK\$480 million loan from the New Facility is secured by, inter alia, a mortgage over certain investment properties with a fair value of HK\$2,157 million as at 31 December 2009. The Existing Facilities and the HK\$480 million loan will be refinanced by the New Facility on 28 June 2010. The New Facility bears interest rate at HIBOR plus a margin of 2.00% per annum. In addition, the Trustee (in its capacity as trustee of Fortune REIT) has provided a guarantee for the New Facility.

# Notes to the Financial Statements

As at 31 December 2009

## 12 BORROWINGS (continued)

- (3) Included in the loan obligation are front end fees of HK\$100.7 million (2008: HK\$20.1 million) paid to the banks to secure the loan facilities. The front end fees are amortised over the respective loan periods. The movement in the front end fees and the accumulated amortisation is as follows:

	Group and Fortune REIT	
	2009 HK\$'000	2008 HK\$'000
At beginning of year	20,125	20,125
Additions	80,600	–
At end of year	100,725	20,125
Movement in accumulated amortisation:		
At beginning of year	(14,088)	(10,063)
Amortised during the year	(8,223)	(4,025)
At end of year	(22,311)	(14,088)
Net book value	78,414	6,037

The Group entered into interest rate swap contracts to swap the floating rate borrowings into fixed rate borrowings. As at 31 December 2009, the fixed interest rates of borrowings vary from 2.38% to 5.12% (2008: 2.38% to 5.12%) per annum.

The effective interest rates and repricing analysis:

	Effective interest rate		Carrying value		Repricing within 3 months	
	2009	2008	2009	2008	2009	2008
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Interest bearing borrowings – Group</b>						
Term loans (with swap cost)	3.56	4.22	2,864,700	2,348,700	2,864,700	2,348,700

# Notes to the Financial Statements

As at 31 December 2009

## 13 DERIVATIVE LIABILITIES

At the end of the reporting period, the total notional principal amount of the derivative financial instruments to which the Group is committed and their fair values at end of the reporting period are as follows:

### (a) Notional amount

	Group	
	2009	2008
	HK\$'000	HK\$'000
Interest rate swaps	<b>2,348,700</b>	2,348,700

### (b) Fair value liabilities

Interest rate swaps	<b>27,512</b>	64,919
Reflected on Statement of Financial Position as:		
Current	<b>27,097</b>	11,473
Non-current	<b>415</b>	53,446
Total	<b>27,512</b>	64,919
Taken to:		
Other comprehensive income	<b>37,407</b>	(30,900)

The fair value of the derivative liabilities falls under Level 2 of the fair value hierarchy as specified under FRS 107 and is measured based on inputs other than quoted prices.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates. Contracts with nominal values of HK\$1,734.2 million (2008: HK\$2,348.7 million) and HK\$614.5 million (2008: Nil) will mature in June 2010 and March 2014 respectively. These contracts have fixed interest payments at rates ranging from 2.38% to 5.12% (2008: 2.38% to 5.12%) per annum and have floating interest receipts at HIBOR.

# Notes to the Financial Statements

As at 31 December 2009

## 13 DERIVATIVE LIABILITIES (continued)

The fair value changes of those interest rate swaps which qualify as cash flow hedges are taken to other comprehensive income. The fair value changes of the other interest rate swaps which do not qualify for hedge accounting have been taken to the profit and loss statement. The fair value derivatives represented 0.31% (2008: 1.05%) of the net assets of the Group as at 31 December 2009.

The derivative liabilities of the Group are denominated in the functional currencies of the respective Group entities.

## 14 DEFERRED TAX LIABILITIES

	<b>Group</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Deferred tax liabilities	<b>132,991</b>	114,777

The movements in deferred tax position during the year were as follows:

At beginning of year	<b>114,777</b>	109,426
Arising on acquisition of properties (Note 9)	<b>2,663</b>	–
Charge to profit and loss for the year (Note 22)	<b>15,551</b>	5,351
At end of year	<b>132,991</b>	114,777

The followings are the major deferred tax liabilities and assets recognised by the Group and movements therein during the year:

### **Deferred tax liabilities (assets)**

	<b>Accelerated</b>		<b>Tax losses</b>		<b>Total</b>	
	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Group</b>						
At beginning of year	<b>120,046</b>	114,717	<b>(5,269)</b>	(5,291)	<b>114,777</b>	109,426
Acquisition of properties (Note 9)	<b>2,663</b>	–	–	–	<b>2,663</b>	–
Charge to profit and loss for the year	<b>15,551</b>	5,329	–	22	<b>15,551</b>	5,351
At end of year	<b>138,260</b>	120,046	<b>(5,269)</b>	(5,269)	<b>132,991</b>	114,777

# Notes to the Financial Statements

As at 31 December 2009

## 15 ISSUED EQUITY

	Group and Fortune REIT			
	2009	2008	2009	2008
	Number	Number		
	of Units	of Units		
	'000	'000	HK\$'000	HK\$'000
At beginning of year	<b>820,819</b>	812,266	<b>4,370,531</b>	4,342,232
Issue of new Units during the year:				
Rights issue	<b>824,879</b>	–	<b>1,888,973</b>	–
As payment of Manager's base fee	<b>6,695</b>	5,477	<b>19,750</b>	21,794
As payment of Manager's acquisition fees	<b>6,372</b>	–	<b>20,390</b>	–
Balance in issue as at year end	<b>1,658,765</b>	817,743	<b>6,299,644</b>	4,364,026
New Units to be issued:				
As payment of Manager's base fee for the period from 1 October to 31 December 2009 (1 October to 31 December 2008)	<b>2,830</b>	3,076	<b>8,696</b>	6,505
At end of year	<b>1,661,595</b>	820,819	<b>6,308,340</b>	4,370,531

- (1) On 15 October 2009, Fortune REIT, via a rights issue exercise, issued 824,879,427 units at an issue price of HK\$2.29 per unit.
- (2) On 16 October 2009, Fortune REIT issued 6,371,875 Units to the Manager at HK\$3.20 per Unit as acquisition fees for the acquisition of 3 new properties (Note 9).
- (3) On 7 January 2010, Fortune REIT issued 2,830,232 Units (2008: 3,075,716 Units) to the Manager at HK\$3.0725 (2008: HK\$2.1148) per Unit as base fee for the period from 1 October 2009 to 31 December 2009 (2008: 1 October 2008 to 31 December 2008).

## 15 ISSUED EQUITY (continued)

Each Unit in Fortune REIT represents an undivided interest in Fortune REIT. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

- Receive income and other distributions attributable to the Units held;
- Receive audited financial statements and the annual reports of Fortune REIT; and
- Participate in the termination of Fortune REIT by receiving a share of all net cash proceeds derived from the realisation of the assets of Fortune REIT less any liabilities, in accordance with their proportionate interests in Fortune REIT. However, an Unitholder has no right to require that any asset of Fortune REIT be transferred to him.

Further, Unitholders cannot give any directions to the Trustee or the Manager (whether at a meeting of Unitholders or otherwise) if it would require the Trustee or the Manager to do or omit doing anything which may result in:

- Fortune REIT ceasing to comply with applicable laws and regulations; or
- The exercise of any discretion expressly conferred on the Trustee or the Manager by the Trust Deed or the determination of any matter which, under the Trust Deed, requires the agreement of either or both of the Trustee and the Manager.

A Unitholder's liability is limited to the amount paid or payable for any Units in Fortune REIT. The provisions of the Trust Deed provide that no Unitholder will be personally liable to indemnify the Trustee or any creditor of the Trustee in the event that liabilities of Fortune REIT exceed its assets.

## 16 UNIT ISSUE COSTS

Rights issue expenses totaling HK\$98.5 million have been charged against the Unitholders' Fund under Unit Issue Costs. Included in the unit issue costs are amount paid to the auditors of Fortune REIT and its subsidiaries of HK\$1.1 million for acting as independent reporting accountants for the rights issue of Fortune REIT and provision of other services relating to the rights issue.

# Notes to the Financial Statements

As at 31 December 2009

## 17 NET ASSET VALUE PER UNIT AND ADJUSTED NET ASSET VALUE PER UNIT

Net asset value per Unit is determined based on the Unitholders' funds of HK\$8,832.7 million (2008: HK\$6,156.4 million) divided by the number of Units issued and to be issued as at the end of the reporting date.

The adjusted net asset value per Unit is calculated based on the net Unitholders' funds excluding hedging reserve divided by the number of Units issued and to be issued as at the end of the reporting date. This comprises:

- (i) the number of Units in issue as at 31 December 2009 of 1,658,765,035 (2008: 817,743,259); and
- (ii) the Units payable to the Manager on 7 January 2010 as base fee for the period from 1 October 2009 to 31 December 2009 of 2,830,232 (2008: 3,075,716).

## 18 REVENUE

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net dividend income	–	–	<b>340,462</b>	309,005
Base rental	<b>498,939</b>	454,786	–	–
Charge-out collections	<b>133,527</b>	121,838	–	–
Short-term rental	<b>67,530</b>	57,865	–	–
Other income	<b>1,358</b>	2,549	–	–
Total	<b>701,354</b>	637,038	<b>340,462</b>	309,005

The rental revenue included HK\$1,093,000 (2008: HK\$1,334,000) of contingent rents.

# Notes to the Financial Statements

As at 31 December 2009

## 19 PROPERTY OPERATING EXPENSES

	Group	
	2009 HK\$'000	2008 HK\$'000
Utilities	28,549	30,541
Government rents and rates	23,189	17,537
Contribution to estate common	20,305	18,123
Staff costs	25,253	14,171
Service contracts and maintenance	32,040	18,313
Manager's performance fee	15,299	14,324
Property management fee	16,190	14,641
Car park expenses	8,388	7,916
Advertising and promotion	8,435	7,296
Audit fees paid to		
– auditors of property companies		
current year	890	760
under provision of prior year audit fees	–	10
– internal auditors of property companies		
current year	340	340
overprovision of prior year audit fees	–	(30)
Allowance for doubtful debts	2,138	2,078
Other operating expenses	25,678	27,874
<b>Total</b>	<b>206,694</b>	<b>173,894</b>



# Notes to the Financial Statements

As at 31 December 2009

## 20 TRUST EXPENSES

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Audit fees paid to auditor of Fortune REIT	503	553	503	553
Professional fees	1,029	1,184	1,029	1,184
Non-deal roadshow expense	95	107	132	107
Trustee's fee	2,812	2,893	2,812	2,893
Transaction costs for acquisition of properties	–	–	22,013	–
Other charges	1,263	7,158	1,226	7,158
Total	5,702	11,895	27,715	11,895

## 21 BORROWING COSTS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Interest expenses on		
– Term loans	87,751	100,319
– Revolving loan	15	–
Commitment fee	393	392
Total	88,159	100,711

# Notes to the Financial Statements

As at 31 December 2009

## 22 INCOME TAX EXPENSES

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current – Singapore	122	1,355	122	1,355
– Hong Kong	50,528	47,426	–	–
Over provision in prior years	–	(293)	–	–
	<b>50,650</b>	48,488	<b>122</b>	1,355
Deferred (Note 14)	15,551	5,351	–	–
Total	<b>66,201</b>	53,839	<b>122</b>	1,355

The income tax expense varied from the amount of income tax determined by applying the Hong Kong income tax rate of 16.5% (2008: 16.5%) to profit (loss) before income tax as a result of the following differences:

	Group		Fortune REIT	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit (Loss) before income tax	<b>1,179,389</b>	(801,036)	<b>285,054</b>	276,351
Income tax expense (benefit) at statutory rate	<b>194,599</b>	(132,171)	<b>47,034</b>	45,598
Non-allowable items	<b>5,651</b>	193,223	<b>9,261</b>	6,630
Non-taxable income	<b>(134,053)</b>	(780)	–	–
Tax exempt income	–	–	<b>(56,177)</b>	(50,986)
Effect of different tax rates of overseas operations	<b>4</b>	113	<b>4</b>	113
Decrease in opening deferred tax liability resulting				
from a decrease in applicable tax rate	–	(6,253)	–	–
Over provision of current tax in prior years	–	(293)	–	–
Net income tax expense	<b>66,201</b>	53,839	<b>122</b>	1,355

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008 and 2009. Therefore, there was an one-off write-back of deferred tax in 2008.



# Notes to the Financial Statements

As at 31 December 2009

## 23 AMOUNT AVAILABLE FOR DISTRIBUTION

Amount available for distribution during the financial year is derived from profit of the Group after adjustment for appropriate expenses in the current year and prior periods.

## 24 EARNINGS PER UNIT

### (i) *Weighted average earnings (loss) per Unit*

Weighted average basic earnings (loss) per Unit is calculated by dividing the profit (loss) for the year by the weighted average number of Units in issue during the year as follows:

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Profit (Loss) for the year	<b>1,113,188</b>	(854,875)

	<b>2009</b>	2008
	<b>Number</b>	Number
	<b>of Units</b>	of Units
	<b>'000</b>	'000
Weighted average number of Units in issue during the year	<b>1,003,312</b>	816,186

	<b>HK cents</b>	HK cents
Weighted average earnings (loss) per Unit	<b>110.95</b>	(104.74)

The weighted average number of Units in issue during the year takes into account the 2,830,232 (2008: 3,075,716) Units issued to the Manager on 7 January 2010 (2008: 9 January 2009) as base fee for the period from 1 October 2009 to 31 December 2009 (2008: 1 October 2008 to 31 December 2008).

## 24 EARNINGS PER UNIT (continued)

### (ii) Adjusted notional basic earnings per Unit

Adjusted notional basic earnings per Unit is calculated by dividing the profit (loss) excluding fair value gain (loss) on investment properties by the weighted average number of units issued during the first and second half of the year respectively including the base fee issued to the Manager in Unit for the period 1 October 2009 to 31 December 2009 (2008: 1 October 2008 and 31 December 2008) as follows:

	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Profit for the year adjusted for fair value changes on investment properties	<b>306,905</b>	275,715
	<b>2009</b>	2008
	<b>Number</b>	Number
	<b>of Units</b>	of Units
	<b>'000</b>	'000
Weighted average number of Units in issue during the year	<b>1,003,312</b>	816,186
	<b>HK cents</b>	HK cents
Adjusted notional earnings per Unit	<b>30.59</b>	33.78

Diluted earnings per Unit is the same as the weighted average basic earning per Unit as there are no dilutive instruments in issue during the current financial year nor outstanding at the end of the financial year.



# Notes to the Financial Statements

As at 31 December 2009

## 25 DISTRIBUTION POLICY

	2009 HK\$'000	2008 HK\$'000
Distributions to Unitholders during the year comprise:		
<b>2009</b>		
Distribution of 18.51 Hong Kong cents per Unit for the period 1 July 2008 to 31 December 2008	<b>151,934</b>	–
Distribution of 19.60 Hong Kong cents per Unit for the period 1 January 2009 to 30 June 2009	<b>161,676</b>	–
Total	<b>313,610</b>	–
<b>2008</b>		
Distribution of 17.42 Hong Kong cents per Unit for the period 1 July 2007 to 31 December 2007	–	141,497
Distribution of 18.51 Hong Kong cents per Unit for the period 1 January 2008 to 30 June 2008	–	150,912
Total	–	292,409

Fortune REIT's distribution policy is to distribute 100% of its Tax-Exempt Income (except gain on revaluation of properties and dividends paid out of interest income and gains, which are distributable at the discretion of the Manager) after deduction of applicable expenses. Tax-Exempt Income consists of dividends receivable in Singapore from the property companies which are paid out of income subject to Hong Kong Profits Tax at a rate of not less than 15%. This income will be distributed on a semi-annual basis to Unitholders and will be paid by the Manager within 60 days from the end of each distribution period. Under the Trust Deed, the Manager is required to pay distributions within 60 days from the end of each distribution period.

# Notes to the Financial Statements

As at 31 December 2009

## 25 DISTRIBUTION POLICY (continued)

The distribution per Unit is based on the amount available for distribution for the relevant distribution period and the number of Units in issue as at the end of each distribution period plus the number of Units to be issued after the distribution period to the Manager as base fee for the last quarter of the relevant distribution period as follows:

	<b>Amount available for distribution</b>	<b>Number of Units</b>	<b>Distribution per Unit</b>
	HK\$'000	'000	HK cents
<b>Distribution period</b>			
<b>Year ended 31 December 2009</b>			
1 January 2009 to 30 June 2009	<b>161,698</b>	<b>824,879</b>	<b>19.60</b>
1 July 2009 to 31 December 2009	<b>176,143</b>	<b>1,661,595</b>	<b>10.60</b>
Total	<b>337,841</b>		<b>30.20</b>
<b>Year ended 31 December 2008</b>			
1 January 2008 to 30 June 2008	150,916	815,302	18.51
1 July 2008 to 31 December 2008	151,939	820,819	18.51
Total	302,855		37.02

## 26 SEGMENTAL REPORTING

The application of FRS 108 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operation decision maker, which is the Manager, in order to allocate resources to segments and to assess their performance.

The Group is currently investing 14 (2008: 11) properties as at 31 December 2009 which are located in Hong Kong. Net property income is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group has similar economic characteristic and therefore, no further analysis for segment information is presented.



# Notes to the Financial Statements

As at 31 December 2009

## 27 OPERATING LEASE ARRANGEMENTS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Minimum lease income under operating leases included in profit and loss	<b>632,466</b>	576,624

As at the Statement of Financial Position date, commitments in respect of non-cancellable operating leases for the rental of shopping mall premises were as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Future minimum lease payments receivable:		
Within one year	<b>481,760</b>	429,230
In the second to fifth year inclusive	<b>376,791</b>	410,518
After five years	<b>19,391</b>	21,081
Total	<b>877,942</b>	860,829

Operating lease income represents rentals receivable by the Group for its investment properties. Leases are negotiated for an average of 1 to 3 years and rentals are fixed for an average of 1 to 3 years.

## ISSUED AND FULLY PAID-UP UNITS

As at 12 February 2010

Date	Event	No of Units	Amount (HK\$)	Price (HK\$)
12-08-03	Initial public offering	473,000,000	2,234,045,650 <sup>1</sup>	4.7500
16-10-03	Manager's base fee	285,275	1,318,969	4.6235
13-01-04	Manager's base fee	508,329	2,562,639	5.0413
01-04-04	Manager's base fee	491,656	2,534,746	5.1556
02-07-04	Manager's base fee	471,649	2,534,783	5.3743
01-10-04	Manager's base fee	411,900	2,562,636	6.2215
12-01-05	Manager's base fee	501,966	3,163,791	6.3028
06-04-05	Manager's base fee	460,047	3,095,012	6.7276
28-06-05	Equity fund raising	318,796,148	1,986,100,002	6.2300
18-07-05	Acquisition fee	5,520,064	34,389,999	6.2300
18-07-05	Manager's base fee	496,797	3,189,039	6.4192
03-10-05	Manager's base fee	977,811	5,907,152	6.0412
16-01-06	Manager's base fee	1,124,236	6,496,960	5.7790
06-04-06	Manager's base fee	995,742	6,355,722	6.3829
05-07-06	Manager's base fee	1,088,288	6,426,341	5.9050
03-10-06	Manager's base fee	1,087,740	6,496,962	5.9729
16-01-07	Manager's base fee	1,168,830	6,983,175	5.9745
09-04-07	Manager's base fee	1,173,532	6,831,364	5.8212
04-07-07	Manager's base fee	1,081,039	6,907,947	6.3901
05-10-07	Manager's base fee	1,212,602	6,983,860	5.7594
15-01-08	Manager's base fee	1,412,396	7,345,307	5.2006
10-04-08	Manager's base fee	1,424,193	7,185,628	5.0454
07-07-08	Manager's base fee	1,611,601	7,264,617	4.5077
08-10-08	Manager's base fee	2,441,418	7,344,274	3.0082
09-01-09	Manager's base fee	3,075,716	6,504,526	2.1148
06-04-09	Manager's base fee	2,299,231	6,363,123	2.7675
10-07-09	Manager's base fee	1,761,221	6,656,712	3.7796
08-10-09	Manager's base fee	2,634,306	6,729,863	2.5547
15-10-09	Rights issue	824,879,427	1,888,973,888	2.2900
16-10-09	Acquisition fee	6,371,875	20,390,000	3.2000
07-01-10	Manager's base fee	2,830,232	8,695,890	3.0725
	Total Units outstanding	1,661,595,267		

Note:

1. After volume discount

There were 1,661,595,267 Units (voting rights: one vote per Unit) outstanding as at 12 February 2010. There is only one class of Units in Fortune REIT.



# Unitholders' Statistics

## TOP TWENTY UNITHOLDERS

As at 12 February 2010

As shown in the Register of Substantial Unitholders as at 12 February 2010

Ranking	Unitholders	No. of Units	% of total
1	Focus Eagle Investments Limited	413,074,684	24.86%
2	DBS Nominees Pte Ltd	348,384,480	20.97%
3	DBSN Services Pte Ltd	221,532,390	13.33%
4	Citibank Nominees Singapore Pte Ltd	166,021,598	9.99%
5	HSBC (Singapore) Nominees Pte Ltd	139,454,040	8.39%
6	United Overseas Bank Nominees Pte Ltd	59,411,738	3.58%
7	DBS Vickers Securities (S) Pte Ltd	26,561,035	1.60%
8	DB Nominees (S) Pte Ltd	18,246,861	1.10%
9	Kim Eng Securities Pte Ltd	14,526,000	0.87%
10	Raffles Nominees (Pte) Ltd	12,304,333	0.74%
11	ING Nominees (Singapore) Pte Ltd	9,302,000	0.56%
12	ARA Asset Management (Singapore) Limited	9,202,971	0.55%
13	Morgan Stanley Asia (Singapore) Securities Pte Ltd	8,414,000	0.51%
14	OCBC Securities Private Ltd	6,525,229	0.39%
15	G Pannir Selvam	4,559,000	0.27%
16	UOB Kay Hian Pte Ltd	3,934,000	0.24%
17	G K Goh Strategic Holdings Pte Ltd	3,600,000	0.22%
18	Phillip Securities Pte Ltd	2,957,295	0.18%
19	BNP Paribas Nominees Singapore Pte Ltd	2,927,000	0.18%
20	Liew Chee Kong	2,825,000	0.17%
Total		1,473,763,654	88.70%

## SUBSTANTIAL UNITHOLDERS

As at 12 February 2010

As shown in the Register of Substantial Unitholders as at 12 February 2010

		No. of Units	
		Direct interest	Deemed interest
1	Focus Eagle Investments Limited	413,074,684	–
2	Ballston Profits Limited	112,556,000	–
3	DBS Bank Ltd	97,141,000	–
4	Schroder Investment Management Group	–	197,889,300 <sup>1</sup>
5	Cheung Kong (Holdings) Limited	–	525,630,684 <sup>2</sup>
6	Hutchison Whampoa Limited	–	112,556,000 <sup>3</sup>
7	DBS Group Holdings Ltd	–	97,141,000 <sup>4</sup>
8	Temasek Holdings (Private) Limited	–	97,141,000 <sup>5</sup>

### Notes:

- Schroder Investment Management Group is deemed to be interested in 197,889,300 Units of which:
  - 104,630,000 Units are held by Schroder Investment Management Limited
  - 78,312,000 Units are held by Schroder Investment Management (Singapore) Limited
  - 14,947,300 Units are held by Schroder Investment Management (Hong Kong) Limited
- Cheung Kong is deemed to be interested in 525,630,684 Units, of which:
  - 413,074,684 Units are held by Focus Eagle Investments Limited (a wholly-owned subsidiary of Cheung Kong); and
  - 112,556,000 Units are held by Ballston Profits Limited (a wholly-owned subsidiary of Hutchison Whampoa Limited, which in turn is 49.9% owned by Cheung Kong)
- Hutchison Whampoa Limited is deemed to be interested in 112,556,000 Units held by its wholly-owned subsidiary company, Ballston Profits Limited.
- DBS Group Holdings Ltd is deemed to be interested in 97,141,000 Units held by its subsidiary, DBS Bank Ltd.
- Temasek Holdings (Private) Limited is deemed to be interested in 97,141,000 Units held indirectly by DBS Group Holdings Limited (Temasek Holdings (Private) Limited holds directly and indirectly approximately 28% of total issued share capital of DBS Group Holdings Limited)



# Unitholders' Statistics

## SIZE OF HOLDINGS

As at 12 February 2010

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Units
1 – 999	91	2.85	3,983	0.00
1,000 – 10,000	1,291	40.39	6,516,019	0.39
10,001 – 1,000,000	1,764	55.20	131,289,477	7.90
1,000,001 and above	50	1.56	1,523,785,788	91.71
Total	3,196	100.00	1,661,595,267	100.00

## MANAGER'S DIRECTORS' UNITHOLDINGS

As shown in the Register of Directors' Unitholdings as at 21 January 2010

		No. of Units	
		Direct interest	Deemed interest
1	Lim Hwee Chiang, John	–	23,998,971
2	Poon Sow-Mei (alias Sng Sow Mei)	220,000	–

Note:

1. Mr. Lim Hwee Chiang, John is deemed to be interested in 23,998,971 Units, of which:
  - (i) 9,202,971 Units are held by the Manager (a wholly-owned subsidiary of ARA Asset Management Limited ("ARA")) by virtue of Mr. Lim's shareholdings of 0.24% in the capital of ARA as well as his ownership of 100% of the issued shares in the capital of JL Investment Group Limited, which holds 36.45% of the issued shares in the capital of ARA.
  - (ii) 12,696,000 Units are held by ARA Asian Income Master Fund ("AAAIMF"). ARA Strategic Capital I Pte Ltd (the "Fund Manager"), as the fund manager of AAAIMF, is deemed to have an interest in the Units. The Fund Manager is 100% owned by ARA Strategic Capital (Holdings) Pte Ltd which is 75% owned by ARA Asset Management Limited.
  - (iii) 2,100,000 Units are held by Citibank Nominees Singapore Pte Ltd as nominee for Mr. Lim.

## FREE FLOAT

Based on information made available to the Manager as at 12 February 2010, approximately 50.6% of the Units in Fortune REIT are held in public hands. Under Rule 723 of the Listing Manual of the SGX-ST, a listed issuer must ensure that at least 10% of its listed securities are at all times held by the public.



## RELATED PARTY TRANSACTIONS

The transactions entered into during the financial year with an “interested person” or an “interested party” which fall under the Listing Manual of the SGX-ST and Property Fund Guidelines respectively are as follows:

<b>Name of Related Party</b>	<b>Aggregate value of all related party transactions entered during the financial period under review (excluding transactions of less than S\$100,000 (HK\$540,900 equivalent) each)</b>
	HK\$'000
Base rent and charge-out collections	
ARA Managers (Asia Dragon) Pte Ltd	4,618
A.S. Watson Group (HK) Limited	40,014
Cheung Kong Property Development Limited	5,635
Citybase Property Management Limited	3,053
Hutchison Telephone Company Limited	1,322
<b>Total</b>	<b>54,642</b>

Save as disclosed above, there were no additional related party transactions (excluding transactions of less than S\$100,000 (HK\$540,900 equivalent) each) entered during the year ended 31 December 2009.

Please also see Significant Related Party Transactions in Note 5 in the financial statements.

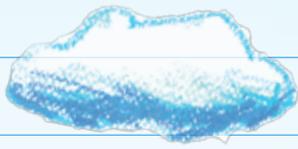
*Note:*

1. Exchange rate as at 1 January 2009

## SUBSCRIPTION OF FORTUNE REIT UNITS

As at 31 December 2009, an aggregate of 1,658,765,035 Units were in issue. On 7 January 2010, Fortune REIT issued 2,830,232 Units to the Manager as base fee for the period from 1 October 2009 to 31 December 2009.





**F**ORTUNE  
置富產業信託 **REIT**



**Fortune Real Estate Investment Trust**  
Managed by ARA Asset Management (Singapore) Limited

[www.fortunereit.com](http://www.fortunereit.com)



This Product is printed on Recyclable Paper