

FORTUNE 置富產業信託 REIT



股份代號 | 香港Hong Kong 778
Stock Code | 新加坡Singapore F25U

About Fortune REIT

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a real estate investment trust constituted by a trust deed (the “**Trust Deed**”) entered into on 4 July 2003 (as amended) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the “**Trustee**”).

Listed on 12 August 2003 on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) with a dual primary listing on The Stock Exchange of Hong Kong Limited (the “**SEHK**”) on 20 April 2010, Fortune REIT was Asia’s first cross-border REIT and also the first REIT to hold assets in Hong Kong. It currently holds a portfolio of 16 private housing estate retail properties in Hong Kong comprising of 2.45 million square feet (“**Sq.ft.**”) of retail space and 1,984 carparking lots.

About the Manager

Fortune REIT is managed by ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited (“**ARA**”). ARA, an affiliate of the Cheung Kong Group, is an Asian real estate fund management company focused on the management of public listed REITs and private real estate funds.

Our Mission

The Manager’s key objective is to deliver regular and stable returns to holders of Fortune REIT units (“**Unitholders**”) through proactive management of Fortune REIT’s portfolio of assets and acquiring properties that generate long term benefits to Unitholders.



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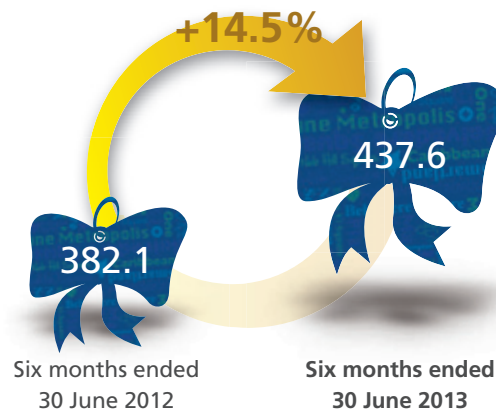


Financial Highlights

Revenue (HK\$ million)

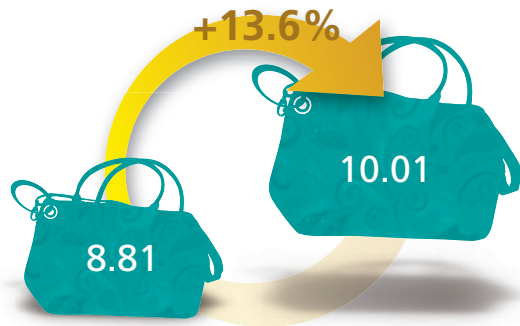


Net Property Income (HK\$ million)



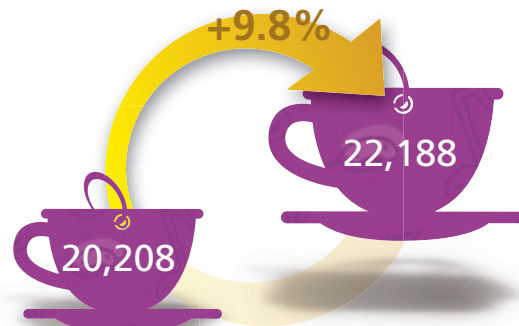
| | Six months ended 30 June 2013 | Six months ended 30 June 2012 | % change |
|--|----------------------------------|----------------------------------|----------|
| Revenue (HK\$ million) | 609.2 | 537.4 | +13.4% |
| Net property income (HK\$ million) | 437.6 | 382.1 | +14.5% |
| Cost-to-revenue ratio | 26.0% | 26.7% | -0.7% |
| Income available for distribution (HK\$ million) | 307.0 | 268.3 | +14.4% |
| Distribution per unit ("DPU") (HK cents) | 18.00 | 15.82 | +13.8% |

Net Asset Value Per Unit (HK\$)



As at 31 December 2012 As at 30 June 2013

Property Valuation (HK\$ million)



As at 31 December 2012 As at 30 June 2013

| | As at 30 June 2013 | As at 31 December 2012 | % change |
|---|-----------------------|---------------------------|----------|
| Net asset value per unit (HK\$) | 10.01 | 8.81 | +13.6% |
| Property valuation (HK\$ million) | 22,188 | 20,208 | +9.8% |
| Gearing ratio/Aggregate leverage ¹ | 20.9% | 23.4% | -2.5% |

Note:

- 1 Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 30 June 2013, there was no deferred payment incurred for Fortune REIT.



Asset Enhancement Highlights

Asset enhancement initiatives (“AEIs”) has inevitably become an important growth engine for Fortune REIT in recent years. The AEIs not only created a more comfortable and exciting shopping environment, they have also unlocked value from our properties and brought impressive returns for Fortune REIT’s Unitholders.

Fortune REIT continued its success in executing and delivering good returns for its AEIs. During the six months ended 30 June 2013 (the “Reporting Period”), both the AEIs at Fortune City One (“FCO”) and Jubilee Square were fully completed with a return on investment (“ROI”) exceeding 25%. The Manager will continue to roll out other planned AEIs in the pipeline including the renovation of Fortune City One Market and the reconfiguration of the anchor tenants’ space at Ma On Shan Plaza (“MOSP”).



銀禧薈



Jubilee Square



置富第一城

Fortune City One



馬鞍山廣場

Ma On Shan Plaza



Awards

Fortune REIT garnered a number of prestigious awards during the Reporting Period. These are strong testament to our dedication to excellence in corporate management, corporate governance and corporate social responsibility.





Corporate Governance Asia

- 1 Asia's Outstanding Company on Corporate Governance, Corporate Governance Asia

Asia's Best Companies 2013, FinanceAsia

- 2 Best Mid-Cap Company
- 3 Most Committed to a Strong Dividend Policy
- 4 Best Corporate Governance (first runner-up)
- 5 Best Corporate Social Responsibility (first runner-up)
- 6 Best Managed Company (second runner-up)
- 7 Best Investor Relations (second runner-up)
- 8 Best CEO – Mr Anthony Ang (second runner-up)

U Magazine, Hong Kong Economic Times Holdings

- 9 U Green Awards 2012/13 – Excellence of Environmental Contributions

CAPITAL Magazine, South China Group

- 10 Capital Honor Grand Awards – Investor Relations

Euromoney Asia Best Managed Companies 2013

- 11 Ranked 3rd in Best Managed Companies in Asia 2013: Property/Real Estate Sector





Management Discussion and Analysis

Financial Review

Fortune REIT achieved record-breaking results during the first half of 2013, driven by the successful execution of its three core growth strategies: active leasing management, yield-accretive acquisitions and AEs.

For the Reporting Period, Fortune REIT's revenue and net property income surged by 13.4% and 14.5% year-on-year to historical high of HK\$609.2 million and HK\$437.6 million respectively, maintaining last year's growth momentum. This exceptional financial performance was attributable to (i) the strong rental reversions across its enlarged portfolio; (ii) a full six-month income contributions of Belvedere Square and Provident Square

acquired in February 2012; as well as (iii) remarkable returns from the completed AEs.

Borrowing costs, excluding debt front-end fees, for the Reporting Period totalled HK\$66.6 million, an increase of 9.3% over the first half of 2012.

Stronger financial results have kept the positive growth momentum in distributable income on track. Income available for distribution for the Reporting Period amounted to HK\$307.0 million, a year-on-year increase of 14.4%. DPU for the Reporting Period was 18.00 Hong Kong cents, 13.8% higher than the DPU of 15.82 Hong Kong cents for the corresponding period in 2012. This represents an annualised distribution yield of 5.1% based on the unit price of HK\$7.10, the average of the two closing unit prices in Singapore and Hong Kong as at 28 June 2013.

The interim distribution of 18.00 Hong Kong cents per unit will be paid on Thursday, 29 August 2013 to Unitholders registered in the registers of Unitholders of Fortune REIT as at Monday, 29 July 2013.

The outstanding performance of Fortune REIT has been broadly recognised in the industry. Fortune REIT was named 'Hong Kong's Best Mid Cap' for the second consecutive year and had climbed up the ranks from last year's second runner-up to become champion in the category of 'Most Committed to a Strong Dividend Policy' in the Asia's Best Companies 2013 Poll conducted by *FinanceAsia*.

Capital Management

As at 30 June 2013, the total committed loan facilities amounted to HK\$5,200 million. These comprised the 2011 Facilities of HK\$3,800 million and the 2012 Facilities of HK\$1,400 million. As at 30 June 2013, a total of HK\$4,768 million was drawn from the two Facilities and the gearing ratio and aggregate leverage of Fortune REIT was 20.9% (31 December 2012: 23.4%). The gross liability, as a percentage of gross assets of Fortune REIT, was 25.4% as at 30 June 2013 (31 December 2012: 28.1%). The net current liabilities as at 30 June 2013 was HK\$1,037.7 million, mainly due to the drawdown of the revolving credit facility of the 2011 Facilities to part finance the acquisition of Belvedere Square and Provident Square in 2012. There is an option to rollover the revolving credit facility up until maturity.

The weighted average debt maturity of the 2011 Facilities and 2012 Facilities was 2.5 years. The two Facilities are secured over Fortune REIT's 13 investment properties, which carried an aggregate fair value of HK\$17,381 million as at 30 June 2013. The Trustee has provided a guarantee for both of the Facilities.

The Manager continued to take a prudent approach in managing the risk which may arise due to fluctuation of interest costs. As at 30 June 2013, the interest cost for approximately 76% of Fortune REIT's debt exposure has been hedged to fixed rates through various plain vanilla

interest rate swaps. Fortune REIT's weighted average effective cost of borrowing for the Reporting Period was 2.81% (first half of 2012: 2.77%). The Manager will continue to monitor the interest rate movement closely and may, depending on market conditions, consider putting in place additional interest rate swaps.

Net asset value per unit amounted to HK\$10.01 as at 30 June 2013, up 13.6% from HK\$8.81 reported as at the end of 2012, mainly as a result of the increase in the valuation of investment properties.

Portfolio Valuation

The valuation of Fortune REIT's 16 retail properties was appraised at HK\$22,188 million by Jones Lang LaSalle Limited, ("**Jones Lang LaSalle**") an independent valuer, as at 30 June 2013. This represents a 9.8% increase from the valuation of HK\$20,208 million as at 31 December 2012. The increase in valuation was mostly contributed by an overall improvement in asset performance. The higher valuation has resulted in a revaluation gain of HK\$1,958 million for the Reporting Period.

Portfolio Highlights

As at 30 June 2013, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 2.45 million Sq.ft. of retail space and 1,984 car parking lots.

Management Discussion and Analysis

| Property | Gross Rentable Area (Sq. ft.) | Valuation (HK\$ million) | Occupancy | No. of car parking lots |
|------------------------------|-------------------------------------|-----------------------------|--------------|----------------------------|
| Fortune City One | 414,469 | 5,747 | 91.4% | 653 |
| Ma On Shan Plaza | 310,084 | 4,172 | 99.6% | 290 |
| Metro Town | 180,822 | 2,666 | 100.0% | 74 |
| Fortune Metropolis | 332,168 | 1,927 | 98.5% | 179 |
| Belvedere Square | 276,862 | 1,648 | 100.0% | 329 |
| Waldorf Avenue | 80,842 | 1,385 | 100.0% | 73 |
| Caribbean Square | 63,018 | 855 | 100.0% | 117 |
| Provident Square | 180,238 | 820 | 100.0% | N.A |
| Jubilee Square | 170,616 | 756 | 97.3% | 97 |
| Smartland | 123,544 | 563 | 94.8% | 67 |
| Tsing Yi Square | 78,836 | 508 | 100.0% | 27 |
| Nob Hill Square | 91,779 | 394 | 99.6% | 43 |
| Centre de Laguna | 43,000 | 244 | 100.0% | N.A |
| Hampton Loft | 74,734 | 229 | 100.0% | 35 |
| Lido Avenue | 9,836 | 167 | 100.0% | N.A |
| Rhine Avenue | 14,604 | 107 | 100.0% | N.A |
| Total/Overall average | 2,445,452 | 22,188 | 97.8% | 1,984 |

Operations Review

Fortune REIT's private housing estate retail portfolio has again demonstrated its resilience by delivering a solid asset performance amidst a softening of economic growth. Active leasing management and the completed AELs continued to drive the revenue growth of the portfolio. Portfolio occupancy remained healthy at 97.8% as at 30 June 2013 (30 June 2012: 96.5%), through a quick

recovery upon completion of AELs at FCO and Jubilee Square. A strong rental reversion of 18.2% was recorded for renewals during the Reporting Period. Consequently, portfolio passing rent went up by 7.0% year-on-year.

Operating expenses (excluding the Manager's performance fee) stood at HK\$158.1 million, 10.2% higher than the corresponding period last year. Meanwhile, cost-to-revenue ratio was reduced to 26.0% (first half 2012: 26.7%).

Asset Enhancement Initiatives

Fortune REIT continued its success in executing and delivering good returns for its AEs. During the Reporting Period, both the AEs at FCO and Jubilee Square were fully completed with a ROI exceeding 25% respectively. The renovation of the three floors of Jubilee Square had boosted the whole property's monthly rental by 34% as compared with the monthly rental as of March 2012 before the AEs, with occupancy quickly recovering to 97.3% as at 30 June 2013.

The Manager will continue to roll out other planned AEs in the pipeline. The AEs at Fortune City One Market commenced in June 2013 and is scheduled for completion by the end of 2013. Capital expenditure for the project is approximately HK\$18 million with a target ROI of 15%.

The AEs at MOSP, which involves the reconfiguration of a 59,000 Sq.ft. space from anchor tenants, will start in August 2013 and is expected to complete by the end of 2013. Part of the leased area will be taken back and subdivided into smaller shops to cater for the strong demand for retail as well as food and beverages outlets. The capital expenditure will be approximately HK\$17 million, with an expected ROI of at least 15%.

Outlook

Hong Kong's economy continued to grow moderately in the first quarter of 2013. Gross domestic product grew 2.8% from a year earlier, at the same growth pace as the fourth quarter of 2012. Despite the uncertain external environment, the domestic sector has stayed robust and resilient, with private consumption expenditure expanding 7.0% year-on-year in the first quarter of 2013. The retail sentiment remained positive, as the total value of retail sales in Hong Kong for the period from January to May 2013 increased by 15.0% compared to the same period last year. Fortune REIT's portfolio of 16 private housing estate retail properties will continue to benefit from the strong retail environment.

As there could be continuing pressure going forward on certain costs items such as rising statutory minimum wages and electricity tariffs, as well as inflation and other external factors, the Manager will continue to closely monitor the operating expenses. As part of Fortune REIT's green policy, measures such as energy-saving initiatives will continue to be adopted and this will also help to mitigate the impact of higher electricity tariffs.

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



Corporate Governance

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Fortune REIT in a transparent manner and with built-in checks and balances. The Manager has adopted a compliance manual (the “**Compliance Manual**”) which sets out the key processes, systems, measures, and certain corporate governance policies and procedures applicable for governing the management and operation of Fortune REIT and for compliance with the applicable Hong Kong regulations and legislation. As Fortune REIT is a real estate investment trust with dual primary listing of its units in Singapore and Hong Kong; Fortune REIT and/or the Manager are subject to the laws, rules and regulations in Singapore and Hong Kong

applicable to Fortune REIT and/or the Manager (the “**Applicable Rules**”), corporate governance practices and policies referred to in the Singapore Code of Corporate Governance 2005 (“**Singapore Code**”) and the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), where applicable. The Manager confirmed that it has in material terms complied with the provisions of the Compliance Manual and has adhered to the principles and guidelines set out in the Singapore Code and the CG Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Period.

During the Reporting Period, the Compliance Manual had been amended (1) by adding to its corporate governance policy the objective of maintaining board diversity in reviewing board composition to comply with the new Code Provision A.5.6 of the CG Code to be implemented on 1 September 2013; and (2) to adopt the term “trading halt” contained in the Hong Kong Listing Rules currently serves as a short suspension of trading in an issuer’s securities.

Board of Directors of the Manager

The board of directors of the Manager (the “**Board**”) is responsible for corporate governance and the overall management of the Manager including establishing goals for management and monitoring the achievement of these goals. All Board members participate in matters relating to corporate governance, business operations and risks, financial performance and the nomination and review of the performance of the Directors of the Manager (“**the Directors**”). The Board has established a

framework for the management of Fortune REIT and the Manager, including a system of internal control and business risk management processes.

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 to 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 (the "**Auditors**"). Where necessary, additional Board meetings would be held to address significant transactions or issues. In lieu of physical meetings, written resolutions are also circulated for approval by the Board.

The Board presently comprises nine members, seven of whom are Non-Executive Directors. Three of the Non-Executive Directors are Independent Non-Executive Directors. The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties.

The Manager has established an Audit Committee, a Disclosures Committee and a Designated Committee with clear terms of reference to assist the Board in discharging its duties.

- The role of the Audit Committee is to, among other things, safeguard the assets of the Manager and Fortune REIT, maintain adequate accounting records, develop and maintain an effective system of internal controls and risk management, ensure integrity of financial statements and provide

arrangements whereby concerns on financial improprieties or, other matters raised by "whistle-blowers" are investigated and appropriate follow up action taken. The Audit Committee also, among other things, monitor the procedures established to regulate transactions with "connected person" (as defined in the Code on Real Estate Investment Trusts (the "**REIT Code**")) and transactions with "interested person/party" (as defined in the SGX-ST Listing Manual and the Code on Collective Investment Schemes, Appendix 6 – Property Funds).

- The role of the Disclosures Committee is to review matters relating to the disclosure of information to Unitholders and public announcements.
- The role of the Designated Committee is to review matters relating to hedging strategies, financing and refinancing arrangements and transactions involving derivative instruments for hedging purposes.

Interests of, and Dealings in Units by Directors, the Manager or the Significant Unitholders

The Manager has adopted the Units Dealing Code governing dealings in the securities of Fortune REIT by Directors, the Manager and senior executives, officers or other employees of the Manager (collectively, the "**Management Persons**"), on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules. Specific enquiry has been made with the Management Persons, who confirmed that they have complied with the required standard set out in the Units Dealing Code during the Reporting Period.

Corporate Governance

The Manager has also adopted a policy for dealings in Fortune REIT's units pursuant to the provisions of the Listing Rules of SGX-ST which has to be concurrently complied with together with the Units Dealing Code.

Communication between Fortune REIT's Hong Kong and Singapore Offices

As the management and operations of Fortune REIT are overseen and conducted by the Manager's management teams and staff located in Hong Kong and Singapore, the Manager will ensure that both offices work as a fully integrated team and communicate regularly and work closely together in meeting the investment objectives of Fortune REIT.

Changes of Directors' Information

Subsequent to publication of the Annual Report 2012 of Fortune REIT, the Manager received notifications regarding the following changes of Directors' information during the Reporting Period:

1. Mr. Lim Hwee Chiang has become the director of Chinese Chamber Realty Private Limited and the director of the Financial Board of the Singapore Chinese Chamber of Commerce with effect from 28 March 2013. He has resigned as a board member of the Valuation Review Board of the Ministry of Finance of Singapore with effect from 31 May 2013.
2. Dr. Lan Hong Tsung, David has ceased to be the National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China with effect from March 2013.

3. Dr. Lan Hong Tsung, David was appointed as the President of The International Institute of Management on 17 October 2012 and was conferred with the Degree of Doctor of Humanities, honoris causa by Don Honorio Ventura Technological State University and became a holder of Visiting Professorship Awards of Bulacan State University, Philippines and Tarlac State University, Philippines on 23 June 2013.
4. Dr. Chiu Kwok Hung, Justin was conferred with the Degree of Doctor of Laws, honoris causa by Trent University, Canada on 5 June 2013.
5. Dr. Chiu Kwok Hung, Justin, Mr. Ip Tak Chuen, Edmond, Ms. Eirene Yeung and Mr. Ma Lai Chee, Gerald were appointed as members of the Executive Committee of Cheung Kong (Holdings) Limited ("**Cheung Kong**"), a company listed on the Main Board of the SEHK, since March 2013.
6. Mr. Lim Lee Meng was appointed as the Lead Independent Director of the Manager on 15 July 2013.

Audit of Interim Financial Statements and Review of Interim Report

The interim financial statements of Fortune REIT for the six months ended 30 June 2013 have been audited by the Auditors. The interim report of Fortune REIT has also been reviewed by the Audit Committee and the Disclosures Committee.



Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Fortune REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

Connected Party Transactions – Income

Save as disclosed under the section headed “Connected Party Transactions with the Trustee Connected Persons”, the following table sets forth information on all connected party transactions from which Fortune REIT derived its income during the Reporting Period:

| Name of Connected Party | Relationship with Fortune REIT | Nature of the Connected Party Transaction | Income for the six months ended 30 June 2013 HK\$'000 | Rental deposit received as at 30 June 2013 HK\$'000 |
|--|---|---|--|--|
| AMTD Strategic Capital Limited | Subsidiary of a significant holder ¹ | Leasing transactions | 3,119 | 1,663 |
| ARA Asset Management (Fortune) Limited | Manager | Leasing Transactions | 281 | 149 |
| A.S. Watson Group (HK) Limited | Subsidiary of an associate of a significant holder ² | Leasing and licensing transactions | 61,067 | 491 |
| BIGBOXX.com Limited | Subsidiary of an associate of a significant holder ² | Leasing transactions | 966 | – |
| Cheung Kong Property Development Limited | Subsidiary of a significant holder ¹ | Leasing and licensing transactions | 16,975 | – |
| Citybase Property Management Limited | Subsidiary of a significant holder ¹ | Leasing transactions | 1,424 | 982 |
| Hutchison Global Communications Limited | Subsidiary of an associate of a significant holder ² | Licensing transactions | 580 | – |
| Hutchison International Limited | Subsidiary of an associate of a significant holder ² | Leasing transactions | 1,335 | – |
| Hutchison Telephone Company Limited | Subsidiary of an associate of a significant holder ² | Licensing transactions | 3,049 | 1,076 |
| Towerich Limited | Subsidiary of a significant holder ¹ | Licensing transactions | 25 | 13 |
| Total | | | 88,821 | 4,374 |

Notes:

- 1 Significant holder being Cheung Kong.
- 2 The connected parties are the subsidiaries of Hutchison Whampoa Limited (“HWL”), which is 49.9% owned by Cheung Kong and is defined as an associate under the REIT Code.

Connected Party Transactions

Connected Party Transactions – Expenses

The following table sets forth information in relation to property management arrangements, third party services and other operational transactions provided by the connected parties for the properties of Fortune REIT during the Reporting Period:

| Name of Connected Party | Relationship with Fortune REIT | Nature of the Connected Party Transaction | Expenses for the six months ended 30 June 2013 HK\$'000 |
|--|---|---|--|
| Cayley Property Management Limited | Subsidiary of an associate of a significant holder ² | Property management and operations and carpark lease agency fee | 338 |
| Citybase Property Management Limited | Subsidiary of a significant holder ¹ | Property management and operations | 435 |
| E-Park Parking Management Limited | Subsidiary of a significant holder ¹ | Carpark lease agency fee | 1,951 |
| Goodwell-Fortune Property Services Limited | Subsidiary of a significant holder ¹ | Property and lease management fee and marketing service fee | 23,022 |
| Goodwell Property Management Limited | Subsidiary of a significant holder ¹ | Property management and operations | 65 |
| Metro Broadcast Corporation Limited | Associate of a significant holder ¹ | Advertising and promotion expenses | 258 |
| Whampoa Property Management Limited | Subsidiary of an associate of a significant holder ² | Property management and operations | 340 |
| Total | | | 26,409 |

Notes:

- 1 Significant holder being Cheung Kong.
- 2 The connected parties are the subsidiaries of HWL, which is 49.9% owned by Cheung Kong and is defined as an associate under the REIT Code.

Connected Party Transactions – Others

The following table sets forth information in relation to other services provided by the connected parties to Fortune REIT during the Reporting Period:

| Name of Connected Party | Relationship with Fortune REIT | Nature of the Connected Party Transaction | Expenses for the six months ended 30 June 2013 HK\$'000 |
|---|--------------------------------|---|--|
| ARA Asset Management (Fortune) Limited | Manager | Manager's fee | 13,543 |
| HSBC Institutional Trust Services (Singapore) Limited | Trustee | Trustee's fee | 3,564 |
| Jones Lang LaSalle | Principal valuer | Valuation fee | 215 |
| Total | | | 17,322 |

Connected Party Transactions

Connected Party Transactions with the Trustee Connected Persons

Leasing/licensing transactions

The following table sets forth information on the leasing/licensing transactions between Fortune REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies all within the meaning of the REIT Code) and the HSBC Group¹ (collectively, the “Trustee Connected Persons”) during the Reporting Period:

| Name of Connected Party | Relationship with Fortune REIT | Nature of the Connected Party Transaction | Income for the six months ended 30 June 2013 HK\$'000 | Rental deposit received as at 30 June 2013 HK\$'000 |
|--|--------------------------------|---|--|--|
| The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) | Trustee Connected Persons | Leasing and licensing transactions | 2,943 | 632 |
| Hang Seng Bank Limited | Trustee Connected Persons | Leasing and licensing transactions | 3,360 | 2,694 |
| HSBC Life (International) Limited | Trustee Connected Persons | Licensing transactions | 17 | – |
| Total | | | 6,320 | 3,326 |

Note:

- 1 HSBC Group means HSBC and its subsidiaries and unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Fortune REIT). Specifically, HSBC Group includes Hang Seng Bank Limited and its subsidiaries.

Provision of Ordinary Banking and Financial Services

Fortune REIT has engaged HSBC Group to provide ordinary course of banking and financial services (namely, bank deposits and interest earned therefrom) within the Reporting Period.

Connected Party Transactions – Leasing/licensing transactions under which the annual income exceeds HK\$1 million

The following table sets forth information on leasing/licensing transactions with connected persons with annual income that exceeds HK\$1 million:

| Name of Connected Party | Relationship with Fortune REIT | Nature of the connected party transaction | Aggregate annual income ¹ HK\$'000 |
|--|---|---|--|
| AMTD Strategic Capital Limited | Subsidiary of a significant holder ² | Tenancy at Hampton Loft | 5,121 |
| A.S. Watson Group (HK) Limited | Subsidiary of an associate of a significant holder ³ | Tenancies at Fortune City One, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi Square, Nob Hill Square and Rhine Avenue | 86,555 |
| BIGBOXX.com Limited | Subsidiary of an associate of a significant holder ³ | Tenancy at Belvedere Square | 1,091 |
| Cheung Kong Property Development Limited | Subsidiary of a significant holder ² | Tenancies at Fortune Metropolis | 24,483 |
| Citybase Property Management Limited | Subsidiary of a significant holder ² | Tenancy at Hampton Loft | 2,486 |
| Hutchison International Limited | Subsidiary of an associate of a significant holder ³ | Tenancy at Belvedere Square | 1,751 |
| Hutchison Telephone Company Limited | Subsidiary of an associate of a significant holder ³ | Licence at Ma On Shan Plaza | 1,540 |
| HSBC | Trustee Connected Persons | Tenancy at Fortune City One | 5,400 |
| Hang Seng Bank Limited | Trustee Connected Persons | Tenancy at Fortune City One and Ma On Shan Plaza | 5,708 |
| Total | | | 134,135 |

Notes:

- 1 The aggregate annual income stated herein refers to the aggregate base rental/licence income, excluding charge out collection that would have been received for a 12-month period according to the relevant tenancy/licence agreements.
- 2 Significant holder being Cheung Kong.
- 3 The connected parties are the subsidiaries of HWL, which is 49.9% owned by Cheung Kong and is defined as an associate under the REIT Code.



Disclosure of Interests

Unit Capital

The total number of issued units as at 30 June 2013 is 1,702,420,481 units.

Holdings of Significant Unitholders and Other Unitholders

As at 30 June 2013, each of the following persons was considered a "significant Unitholder", and/or "connected person" of Fortune REIT, for the purpose of the REIT Code:

| Name | Direct interest | | Deemed interest | |
|--|--------------------|-----------------------------|--------------------|-----------------------------|
| | Number of Units | | Number of Units | |
| | Held Long Position | Percentage of Unit Holdings | Held Long Position | Percentage of Unit Holdings |
| Focus Eagle Investments Limited ¹ | 413,074,684 | 24.26% | – | – |
| Cheung Kong ¹ | – | – | 525,630,684 | 30.87% |
| Schroders Plc ² | – | – | 225,524,000 | 13.24% |

In addition to the significant Unitholders as disclosed above, each of the following persons held, or was deemed to hold 5% or more of the issued units as at 30 June 2013:

| Name | Direct interest | | Deemed interest | |
|--|--------------------|-----------------------------|--------------------|-----------------------------|
| | Number of Units | | Number of Units | |
| | Held Long Position | Percentage of Unit Holdings | Held Long Position | Percentage of Unit Holdings |
| Ballston Profits Limited ^{1, 3} | 112,556,000 | 6.61% | – | – |
| HWL ¹ | – | – | 112,556,000 | 6.61% |

Notes:

- Focus Eagle Investments Limited was an indirect wholly-owned subsidiary of Cheung Kong; and Ballston Profits Limited was an indirect wholly-owned subsidiary of HWL, which in turn was 49.9% owned by Cheung Kong. Therefore, Cheung Kong was deemed to hold 525,630,684 units, of which: (i) 413,074,684 units were held by Focus Eagle Investments Limited; and (ii) 112,556,000 units were held by Ballston Profits Limited; HWL was deemed to hold 112,556,000 units, which were held by its indirect wholly-owned subsidiary, Ballston Profits Limited.
- Schroders Plc was deemed to be interested in 225,524,000 units of which:
 - 95,841,000 units were held by Schroder Investment Management Limited;
 - 65,875,000 units were held by Schroder Investment Management (Singapore) Limited;
 - 63,728,000 units were held by Schroder Investment Management (Hong Kong) Limited; and
 - 80,000 units were held by Schroders Channel Islands Limited.
- A director of Ballston Profits Limited, Mr. Robin Cheng Khoong Sng is the spouse of Mrs. Sng Sow-Mei.

Interests of the Manager

As at 30 June 2013, the Manager held 3,284,185 units, or approximately 0.19% of the issued units of Fortune REIT.

Interests of the Directors and Senior Executives

Details of the unitholding interests of the Directors and senior executives of Fortune REIT as at 30 June 2013 were as follows:

| Name | Direct interest | | Deemed interest | |
|----------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
| | Number of Units Held Long Position | Percentage of Unit Holdings | Number of Units Held Long Position | Percentage of Unit Holdings |
| Directors | | | | |
| Lim Hwee Chiang ¹ | – | – | 5,384,185 | 0.31% |
| Sng Sow-Mei (alias Poon Sow Mei) | 220,000 | 0.01% | – | – |

Note:

1 Mr. Lim Hwee Chiang was deemed to be interested in a total of 5,384,185 units of which:

- (a) 3,284,185 units were held by the Manager (a wholly-owned subsidiary of ARA). Mr. Lim was deemed to be interested in these units by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporations including ARA; and
- (b) 2,100,000 units were held by Citibank Nominees Singapore Pte. Ltd. (as nominee for JL Philanthropy Ltd). The beneficiary of JL Philanthropy Ltd is JL Charitable Settlement and Mr. Lim Hwee Chiang is the settlor of JL Charitable Settlement.

Saved as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Fortune REIT holding any units of Fortune REIT as at 30 June 2013.

To the best knowledge of the Manager and save as disclosed, the following sets out changes in the beneficial interest of certain connected persons of Fortune REIT, in compliance with rule 8.2 (a) of the REIT Code, by reference to comparison of their respective beneficial interests as at 30 June 2013 and 31 December 2012:

- a) Schroders Plc was beneficially interested in 225,524,000 units as at 30 June 2013 and 162,586,000 units as at 31 December 2012;
- b) The Manager was beneficially interested in 3,284,185 units as at 30 June 2013 and 4,809,682 units as at 31 December 2012; and
- c) Mr. Lim Hwee Chiang, Director of the Manager, was beneficially interested in 5,384,185 units as at 30 June 2013 and 6,909,682 units as at 31 December 2012.



Other Information

Employees

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

New Units Issued

As at 30 June 2013, the total number of issued units of Fortune REIT was 1,702,420,481. As compared with the position as at 31 December 2012, a total of 4,594,503 new units were issued during the Reporting Period in the following manner:

- On 3 January 2013, 2,399,436 new units were issued to the Manager at the price of HK\$6.3684 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$15.3 million payable by Fortune REIT for the period from 1 October 2012 to 31 December 2012.
- On 2 April 2013, 2,195,067 new units were issued to the Manager at the price of HK\$6.8096 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$14.9 million payable by Fortune REIT for the period from 1 January 2013 to 31 March 2013.

Repurchase, Sale or Redemption of Units

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

Public Float

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2013.



Corporate Information

Manager

ARA Asset Management (Fortune) Limited
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The Center 6 Temasek Boulevard
99 Queen's Road Central Singapore 038986
Hong Kong
Tel: +852 2169 0928 Tel: +65 6835 9232
Fax: +852 2169 0968 Fax: +65 6835 9672

Directors of the Manager

CHIU Kwok Hung, Justin, *Chairman and Non-Executive Director*
LIM Hwee Chiang, *Non-Executive Director*
IP Tak Chuen, Edmond, *Non-Executive Director*
YEUNG, Eirene, *Non-Executive Director*
ANG Meng Huat, Anthony, *Executive Director and Chief Executive Officer*
CHIU Yu, Justina, *Executive Director and Deputy Chief Executive Officer*
LIM Lee Meng, *Independent Non-Executive Director**
SNG Sow-Mei (alias POON Sow Mei),
Independent Non-Executive Director
LAN Hong Tsung, David, *Independent Non-Executive Director*
MA Lai Chee, Gerald, *Alternate Director to IP Tak Chuen, Edmond*

* *Mr. Lim Lee Meng was appointed as the Lead Independent Director of the Manager with effect from 15 July 2013.*

Company Secretaries of the Manager

CHOO Yvonne
KOHSIKAPORN Busarakham

Trustee

HSBC Institutional Trust Services (Singapore) Limited

Legal Adviser as to Hong Kong Law

Baker & McKenzie

Legal Adviser as to Singapore Law

Allen & Gledhill LLP

Hong Kong Unit Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Singapore Unit Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place, #32-01
Singapore Land Tower
Singapore 048623

Auditors

Deloitte Touche Tohmatsu
Deloitte & Touche LLP

Stock Codes

Hong Kong: 778
Singapore: F25U

Websites and Email

www.fortunereit.com
www.fortunemalls.com.hk
enquiries@fortunereit.com



Statement by the Manager

In the opinion of the Directors of ARA Asset Management (Fortune) Limited (the “**Manager**”), the consolidated financial statements of Fortune Real Estate Investment Trust (“**Fortune REIT**”) and its subsidiaries (collectively referred to as the “**Group**”) and separate financial statements of Fortune REIT set out on pages 28 to 95, which comprise the consolidated and Fortune REIT’s statements of financial position as at 30 June 2013, and statements of profit or loss and other comprehensive income, statements of changes in net assets attributable to Unitholders, statements of cash flows and distribution statement for the period then ended, and a summary of significant accounting policies and other explanatory information, are properly drawn up in accordance with the International Financial Reporting Standards and the Trust Deed so as to give a true and fair view of the disposition of the assets and liabilities of the Group and of Fortune REIT as at 30 June 2013 and of their results and cash flows for the period 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.

The consolidated and separate financial statements on pages 28 to 95 were approved and authorised for issue by the Manager on 15 July 2013.

For and on behalf of the Manager,
ARA Asset Management (Fortune) Limited

Ang Meng Huat, Anthony
Director

15 July 2013

Independent Auditors' Report



TO THE UNITHOLDERS OF FORTUNE REAL ESTATE INVESTMENT TRUST

Report on the Financial Statements

We have audited the consolidated financial statements of Fortune Real Estate Investment Trust (“**Fortune REIT**”) and its subsidiaries (collectively referred to as the “**Group**”) and separate financial statements of Fortune REIT set out on pages 28 to 95, which comprise the consolidated and Fortune REIT’s statements of financial position as at 30 June 2013, and the statements of profit or loss and other comprehensive income, statements of changes in net assets attributable to unitholders, statements of cash flows and distribution statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Manager’s Responsibility for the Financial Statements

ARA Asset Management (Fortune) Limited (the “**Manager**”) of Fortune REIT) is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial

Reporting Standards issued by the International Accounting Standards Board, the relevant provisions of the Trust Deed dated 4 July 2003 (as amended) (the “**Trust Deed**”), the relevant requirements of the Code on Collective Investment Schemes (the “**CIS Code**”) issued by the Monetary Authority of Singapore and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this

Independent Auditors' Report

report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' judgment, 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 auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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, 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.

Opinion

In our opinion, the financial statements give a true and fair view of the disposition of the assets and liabilities of Fortune REIT and of the Group as at 30 June 2013 and of

their results and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Other Matter

We draw attention to the fact that we have not carried out audit procedures in accordance with International Standards on Auditing on the comparative amounts disclosed in the statements of profit or loss and other comprehensive income, statements of changes in net assets attributable to unitholders, statements of cash flows, distribution statement and relevant explanatory notes.

Report under Other Legal and Regulatory Requirements

In our opinion, the financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant requirements of the CIS Code and REIT Code.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15 July 2013

Deloitte & Touche LLP
*Public Accountants and
Chartered Accountants*

Singapore
15 July 2013



Financial Statements

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Statements of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

| | Notes | Group | | Fortune REIT | |
|--|-------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | | Six months ended 30 June | | Six months ended 30 June | |
| | | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Revenue | 6 | 609,220 | 537,381 | 308,041 | 268,751 |
| Property operating expenses | 7 | (171,640) | (155,272) | | |
| Net property income | | 437,580 | 382,109 | | |
| Manager's base fee | | (31,543) | (28,097) | (31,543) | (28,097) |
| Foreign currency exchange loss | | (139) | (11) | (139) | (11) |
| Interest income | | 1,230 | 3,614 | 911 | 1,842 |
| Trust expenses | 8 | (5,397) | (25,336) | (15,177) | (33,740) |
| Change in fair value of investment properties | | 1,957,965 | 932,845 | – | – |
| Change in fair value of derivative financial instruments | 15 | 107,216 | 4,101 | – | – |
| Gain on disposal of investment properties | | 897 | – | – | – |
| Borrowing costs | 9 | (76,390) | (69,322) | – | – |
| Profit before taxation and transactions with unitholders | 10 | 2,391,419 | 1,199,903 | 262,093 | 208,745 |
| Income tax expense | 11 | (63,402) | (54,522) | (154) | (311) |
| Profit for the period, before transactions with unitholders | | 2,328,017 | 1,145,381 | 261,939 | 208,434 |
| Distributions to unitholders | | (306,965) | (268,327) | (306,965) | (268,327) |
| Profit/(loss) for the period, after transactions with unitholders | | 2,021,052 | 877,054 | (45,026) | (59,893) |
| Other comprehensive income – item that may be reclassified subsequently to profit or loss | | | | | |
| Net gain/(loss) on derivative financial instruments under cash flow hedge | | 28,183 | (17,137) | – | – |
| Total comprehensive income/(expense) for the period | | 2,049,235 | 859,917 | (45,026) | (59,893) |
| Income available for distribution to unitholders | | 306,965 | 268,327 | | |
| Basic earnings per unit (HK cents) | 12 | 136.71 | 67.72 | | |

Distribution Statement

For the six months ended 30 June 2013

| | Notes | Group | |
|--|-------|--------------------------|------------------|
| | | Six months ended 30 June | |
| | | 2013 | 2012 |
| | | HK\$'000 | HK\$'000 |
| | | (Audited) | (Unaudited) |
| Profit for the period, before transactions with unitholders | | 2,328,017 | 1,145,381 |
| Adjustments: | | | |
| Manager's base fee | | 31,543 | 28,097 |
| Acquisition fee | | – | 19,000 |
| Change in fair value of investment properties | | (1,957,965) | (932,845) |
| Change in fair value of derivative financial instruments | | (107,216) | (4,101) |
| Gain on disposal of investment properties | | (897) | – |
| Front end fees | | 9,780 | 8,404 |
| Foreign currency exchange loss | | 139 | 11 |
| Other non-tax deductible trust expenses | | 3,564 | 4,380 |
| Income available for distribution | (i) | 306,965 | 268,327 |
| Distribution per unit (HK cents) | (ii) | 18.00 | 15.82 |

No distribution statement of Fortune Real Estate Investment Trust ("**Fortune REIT**") is presented as the amount of distribution to unitholders is determined based on consolidated results of the Group.

Notes:

- (i) The distribution policy of Fortune REIT has been amended on 26 March 2010 pursuant to the extraordinary resolution passed on the same date for the purpose of allowing Fortune REIT to comply with the relevant Hong Kong regulatory requirements, including the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by The Securities and Futures Commission of Hong Kong ("**SFC**"). The current distribution policy, as amended, obliges Fortune REIT to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of ARA Asset Management (Fortune) Limited (the "**Manager**")) after deduction of applicable expenses ("**Net Tax-Exempt Income**"); and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in the REIT Code ("**Net Profit After Tax**").
- Net Tax-Exempt Income and Net Profit After Tax for the six months ended 30 June 2013 is HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) and HK\$286.7 million (six months ended 30 June 2012: HK\$250.2 million), respectively. Accordingly, the income available for distribution, based on the Net Tax-Exempt Income, of HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) would be distributed to unitholders for the six months ended 30 June 2013.
- (ii) The distribution per unit of 18.00 HK cents for the six months ended 30 June 2013 (six months ended 30 June 2012: 15.82 HK cents) is calculated based on the income available for distribution for the period of HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) over 1,704,730,532 units (30 June 2012: 1,695,337,503 units), representing issued units as at 30 June 2013 of 1,702,420,481 units (30 June 2012: 1,692,187,125 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2013 of 2,310,051 units (second quarter of 2012: 3,150,378 units). The distribution amounting to HK\$307.0 million (six months ended 30 June 2012: HK\$268.3 million) will be paid on 29 August 2013 (six months ended 30 June 2012: 29 August 2012).

Statements of Financial Position

As at 30 June 2013

| | Notes | Group | | Fortune REIT | |
|--|-------|--|--|--|--|
| | | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| ASSETS AND LIABILITIES | | | | | |
| Non-current assets | | | | | |
| Investments in subsidiaries | 13 | – | – | 5,470,134 | 5,470,134 |
| Investment properties | 14 | 22,188,000 | 20,208,000 | – | – |
| Derivative financial instruments | 15 | 71,159 | – | – | – |
| Total non-current assets | | 22,259,159 | 20,208,000 | 5,470,134 | 5,470,134 |
| Current assets | | | | | |
| Trade and other receivables | 16 | 55,290 | 55,245 | 43,086 | 53,306 |
| Bank balances and cash | 17 | 552,506 | 578,022 | 459,756 | 438,309 |
| Total current assets | | 607,796 | 633,267 | 502,842 | 491,615 |
| Total assets | | 22,866,955 | 20,841,267 | 5,972,976 | 5,961,749 |
| Non-current liabilities | | | | | |
| Derivative financial instruments | 15 | 71,987 | 145,357 | – | – |
| Borrowings | 18 | 3,886,548 | 3,878,815 | – | – |
| Deferred tax liabilities | 19 | 204,487 | 192,886 | – | – |
| Total non-current liabilities | | 4,163,022 | 4,217,058 | – | – |
| Current liabilities | | | | | |
| Trade and other payables | 20 | 423,546 | 410,827 | 7,166 | 7,906 |
| Borrowings | 18 | 840,000 | 940,000 | – | – |
| Derivative financial instruments | 15 | 9,130 | – | – | – |
| Distribution payable | | 306,965 | 281,135 | 306,965 | 281,135 |
| Provision for taxation | | 65,805 | 14,538 | 1,135 | 1,515 |
| Total current liabilities | | 1,645,446 | 1,646,500 | 315,266 | 290,556 |
| Total liabilities, excluding net assets attributable to unitholders | | 5,808,468 | 5,863,558 | 315,266 | 290,556 |
| Net assets attributable to unitholders | | 17,058,487 | 14,977,709 | 5,657,710 | 5,671,193 |
| Units in issue and to be issued ('000) | 21 | 1,704,730 | 1,700,225 | | |
| Net asset value per unit (HK\$) attributable to unitholders | 22 | 10.01 | 8.81 | | |

Statements of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2013

| | Group | | | | |
|--|---|---------------------------------|--------------------------------|---------------------------------|-------------------|
| | Units in issue and to be issued HK\$'000 | Unit issue costs HK\$'000 | Hedging reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
| Net assets attributable to unitholders as at 1 January 2012 (Audited) | 6,391,413 | (271,593) | (72,978) | 7,180,928 | 13,227,770 |
| OPERATIONS | | | | | |
| Profit for the period, before transactions with unitholders | – | – | – | 1,145,381 | 1,145,381 |
| Distribution paid and payable of 15.82 HK cents per unit for the six months ended 30 June 2012 | – | – | – | (268,327) | (268,327) |
| Change in fair value of derivative financial instruments under cash flow hedge | – | – | (17,137) | – | (17,137) |
| Total comprehensive income for the period | – | – | (17,137) | 877,054 | 859,917 |
| UNITHOLDERS' TRANSACTIONS | | | | | |
| Creation of units | | | | | |
| – Acquisition fee | 19,000 | – | – | – | 19,000 |
| – Manager's base fee paid/payable in units | 28,097 | – | – | – | 28,097 |
| Increase in net assets resulting from unitholders' transactions | 47,097 | – | – | – | 47,097 |
| Net assets attributable to unitholders as at 30 June 2012 (Unaudited) | 6,438,510 | (271,593) | (90,115) | 8,057,982 | 14,134,784 |
| OPERATIONS | | | | | |
| Profit for the period, before transactions with unitholders | – | – | – | 1,092,998 | 1,092,998 |
| Distribution payable of 16.53 HK cents per unit for the six months ended 31 December 2012 | – | – | – | (281,135) | (281,135) |
| Change in fair value of derivative financial instruments under cash flow hedge | – | – | 1,212 | – | 1,212 |
| Total comprehensive income for the period | – | – | 1,212 | 811,863 | 813,075 |

Statements of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2013

| | Group | | | | |
|--|---|---------------------------------|--------------------------------|---------------------------------|-------------------|
| | Units in issue and to be issued HK\$'000 | Unit issue costs HK\$'000 | Hedging reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
| UNITHOLDERS' TRANSACTIONS | | | | | |
| Creation of units | | | | | |
| – Manager's base fee paid/payable in units | 29,850 | – | – | – | 29,850 |
| Increase in net assets resulting from unitholders' transactions | 29,850 | – | – | – | 29,850 |
| Net assets attributable to unitholders as at 1 January 2013 (Audited) | 6,468,360 | (271,593) | (88,903) | 8,869,845 | 14,977,709 |
| OPERATIONS | | | | | |
| Profit for the period, before transactions with unitholders | – | – | – | 2,328,017 | 2,328,017 |
| Distribution paid and payable of 18.00 HK cents per unit for the six months ended 30 June 2013 | – | – | – | (306,965) | (306,965) |
| Change in fair value of derivative financial instruments under cash flow hedge | – | – | 25,278 | – | 25,278 |
| Release to profit or loss | – | – | 2,905 | – | 2,905 |
| Total comprehensive income for the period | – | – | 28,183 | 2,021,052 | 2,049,235 |
| UNITHOLDERS' TRANSACTIONS | | | | | |
| Creation of units | | | | | |
| – Manager's base fee paid/payable in units | 31,543 | – | – | – | 31,543 |
| Increase in net assets resulting from unitholders' transactions | 31,543 | – | – | – | 31,543 |
| Net assets attributable to unitholders as at 30 June 2013 (Audited) | 6,499,903 | (271,593) | (60,720) | 10,890,897 | 17,058,487 |

| | Fortune REIT | | | |
|---|---|---------------------------------|-----------------------------------|-------------------|
| | Units in issue and to be issued HK\$'000 | Unit issue costs HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
| Net assets attributable to unitholders as at 1 January 2012 (Audited) | 6,391,413 | (271,593) | (422,839) | 5,696,981 |
| OPERATIONS | | | | |
| Profit for the period, before transactions with unitholders | – | – | 208,434 | 208,434 |
| Distribution paid and payable of 15.82 HK cents per unit for the six months ended 30 June 2012 | – | – | (268,327) | (268,327) |
| Total comprehensive expense for the period | – | – | (59,893) | (59,893) |
| UNITHOLDERS' TRANSACTIONS | | | | |
| Creation of units | | | | |
| – Acquisition fee | 19,000 | – | – | 19,000 |
| – Manager's base fee paid/payable in units | 28,097 | – | – | 28,097 |
| Increase in net assets resulting from unitholders' transactions | 47,097 | – | – | 47,097 |
| Net assets attributable to unitholders as at 30 June 2012 (Unaudited) | 6,438,510 | (271,593) | (482,732) | 5,684,185 |
| OPERATIONS | | | | |
| Profit for the period, before transactions with unitholders | – | – | 238,293 | 238,293 |
| Distribution payable of 16.53 HK cents per unit for the six months ended 31 December 2012 | – | – | (281,135) | (281,135) |
| Total comprehensive expense for the period | – | – | (42,842) | (42,842) |

Statements of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2013

| | Fortune REIT | | | |
|--|---|---------------------------------|-----------------------------------|-------------------|
| | Units in issue and to be issued HK\$'000 | Unit issue costs HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
| UNITHOLDERS' TRANSACTIONS | | | | |
| Creation of units | | | | |
| – Manager's base fee paid/payable in units | 29,850 | – | – | 29,850 |
| Increase in net assets resulting from unitholders' transactions | 29,850 | – | – | 29,850 |
| Net assets attributable to unitholders as at 1 January 2013 (Audited) | 6,468,360 | (271,593) | (525,574) | 5,671,193 |
| OPERATIONS | | | | |
| Profit for the period, before transactions with unitholders | – | – | 261,939 | 261,939 |
| Distribution paid and payable of 18.00 HK cents per unit for the six months ended 30 June 2013 | – | – | (306,965) | (306,965) |
| Total comprehensive expense for the period | – | – | (45,026) | (45,026) |
| UNITHOLDERS' TRANSACTIONS | | | | |
| Creation of units | | | | |
| – Manager's base fee paid/payable in units | 31,543 | – | – | 31,543 |
| Increase in net assets resulting from unitholders' transactions | 31,543 | – | – | 31,543 |
| Net assets attributable to unitholders as at 30 June 2013 (Audited) | 6,499,903 | (271,593) | (570,600) | 5,657,710 |

Statements of Cash Flows

For the six months ended 30 June 2013

| | Group | | Fortune REIT | |
|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Operating activities | | | | |
| Profit before taxation and transactions with unitholders | 2,391,419 | 1,199,903 | 262,093 | 208,745 |
| Adjustments for: | | | | |
| Manager's base fee paid/payable in units | 31,543 | 28,097 | 31,543 | 28,097 |
| Acquisition fee paid in units | – | 19,000 | – | 19,000 |
| Change in fair value of investment properties | (1,957,965) | (932,845) | – | – |
| Change in fair value of derivative financial instruments | (107,216) | (4,101) | – | – |
| Gain on disposal of investment properties | (897) | – | – | – |
| Interest income | (1,230) | (3,614) | (911) | (1,842) |
| Interest expense | 66,610 | 60,918 | – | – |
| Front end fees | 9,780 | 8,404 | 9,780 | 8,404 |
| Operating cash flows before movement in working capital | 432,044 | 375,762 | 302,505 | 262,404 |
| (Increase)/decrease in trade and other receivables | (466) | 2,587 | 19 | (50) |
| Increase/(decrease) in trade and other payables | 13,155 | 10,184 | (828) | (10,735) |
| Cash generated from operations | 444,733 | 388,533 | 301,696 | 251,619 |
| Income tax paid | (534) | (490) | (534) | (490) |
| Net cash from operating activities | 444,199 | 388,043 | 301,162 | 251,129 |
| Investing activities | | | | |
| Acquisition of property companies/properties, net of cash acquired (Note 14(i)) | – | (1,896,231) | – | – |
| Upgrading of investment properties | (23,185) | (37,655) | – | – |
| Withdrawal of fixed deposits | – | 150,000 | – | – |
| Proceed from disposal of investment properties | 2,047 | – | – | – |
| Interest received | 1,651 | 6,939 | 1,332 | 3,566 |
| Net cash (used in)/from investing activities | (19,487) | (1,776,947) | 1,332 | 3,566 |

Statements of Cash Flows

As at 30 June 2013

| | Group | | Fortune REIT | |
|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Financing activities | | | | |
| Drawdown of borrowings | – | 1,940,000 | – | – |
| Repayment of borrowings | (102,047) | (300,000) | – | – |
| Distribution paid | (281,047) | (227,342) | (281,047) | (227,342) |
| Interest paid | (67,134) | (56,900) | – | – |
| Payment of front end fees | – | (33,600) | – | (33,600) |
| Net cash (used in)/from financing activities | (450,228) | 1,322,158 | (281,047) | (260,942) |
| Net (decrease)/increase in cash and cash equivalents | (25,516) | (66,746) | 21,447 | (6,247) |
| Cash and cash equivalents at beginning of the period | 578,022 | 731,721 | 438,309 | 434,237 |
| Cash and cash equivalents at end of the period | 552,506 | 664,975 | 459,756 | 427,990 |
| Represented by: | | | | |
| Cash at bank and in hand | 84,465 | 156,225 | 11,715 | 9,240 |
| Fixed deposits with original maturity date less than 3 months | 468,041 | 508,750 | 448,041 | 418,750 |
| | 552,506 | 664,975 | 459,756 | 427,990 |

Notes to the Financial Statements

For the six months ended 30 June 2013

1 GENERAL

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a real estate investment trust constituted by a trust deed entered into on 4 July 2003 (as amended) (the “**Trust Deed**”) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the “**Trustee**”). Fortune REIT was listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and The Stock Exchange of Hong Kong Limited (the “**SEHK**”) on 12 August 2003 and 20 April 2010, respectively.

The registered offices and principal places of business of the Manager in Singapore and Hong Kong are 6 Temasek Boulevard, #16-02 Suntec Tower 4, Singapore 038986 and Units 5508-5510, 55th Floor, The Center, 99 Queen’s Road Central, Hong Kong, respectively.

The registered offices and principal places of business of the Trustee is 21 Collyer Quay #10-02, HSBC Building, Singapore 049320.

The consolidated and Fortune REIT’s separate financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the functional currency of Fortune REIT.

The principal activity of Fortune REIT is investment holding whereas its subsidiaries (together with Fortune REIT referred to as the “**Group**”) is to own and invest in a portfolio of retail shopping malls located in Hong Kong with the primary objective of producing stable distributions for unitholders and to achieve long term growth in the net asset value per unit.

The consolidated and separate financial statements on pages 28 to 95 were authorised for issue by the Manager on 15 July 2013.

The Group 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 (“**Property Management Agreement**”), Goodwell-Fortune Property Services Limited (the “**Property Manager**”), which is a subsidiary of the largest unitholder (Note 30(a)), will receive from each of the property holding subsidiaries (the “**Property Companies**”) a fee of 3.0% per annum of gross property revenue for the provision of property management services and lease management services.

Notes to the Financial Statements

For the six months ended 30 June 2013

1 GENERAL (Continued)

(a) Property management fees (Continued)

Property management fee (Continued)

In respect of Belvedere Square and Provident Square, the Property Manager has engaged Cayley Property Management Limited and Whampoa Property Management Limited, respectively, which are related parties of Fortune REIT, to provide part of the property management services.

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

Marketing services fee

For marketing services, the Property Companies will pay the Property Manager the following leasing and other 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 total licence fee for securing a licence for duration of less than 12 months.

(b) Trustee's fees

The Trustee's fees are 0.035% 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.

(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 a rate not exceeding 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 Fortune REIT during the first five years after the units are listed on the SGX-ST. Thereafter, the base fee shall be paid to the Manager in the form of cash or units as the Manager may elect.

1 GENERAL (Continued)

(c) Manager's fees (Continued)

Performance fee

Under the Trust Deed, the Manager will receive a performance fee in the form of cash from each of the Property Companies at 3.0% per annum of the net property income of the Property Companies with certain adjustment.

(d) Acquisition fee and divestment fee

The Manager is entitled to receive the following fees:

Acquisition fee

Under the Trust Deed, the Manager will receive an acquisition fee of not exceeding a maximum of 1.0% of the acquisition price for any real estate purchased directly or indirectly by Fortune REIT (pro-rated if applicable to the proportion of Fortune REIT's interest in the real estate acquired) in the form of cash or units as the Manager may elect.

Divestment fee

Under the Trust Deed, the Manager will receive a divestment fee of not exceeding a maximum of 0.5% of the sale price of any real estate directly or indirectly sold or divested by Fortune REIT (pro-rated if applicable to proportion of Fortune REIT's interest in the real estate sold) in the form of cash.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied the following new and revised International Financial Reporting Standard ("IFRS") issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

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

Notes to the Financial Statements

For the six months ended 30 June 2013

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

Impact of the application of IFRS 10

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

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

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the financial statements as disclosed in Note 13.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current period. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

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

In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current Standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* have been extended by IFRS 13 to cover all assets and liabilities within its scope.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

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

Notes to the Financial Statements

For the six months ended 30 June 2013

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

New and revised IFRSs issued but not effective

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

| | |
|---|--|
| IFRS 9 | Financial Instruments ² |
| Amendment to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures ² |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities ¹ |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities ¹ |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets ¹ |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting ¹ |
| IFRIC 21 | Levies ¹ |

¹ Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted

² Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 Financial Instruments (Continued)

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

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

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

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities. The amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The Manager anticipates that the application of the amendments will have no effect on the Group as Fortune REIT is not an investment entity.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The consolidated and Fortune REIT's separate financial statements have been prepared on historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated and Fortune REIT's separate financial statements have been prepared in accordance with IFRSs issued by IASB, and are drawn up in accordance with the relevant provisions of the Trust Deed, the relevant requirements of the Code on Collective Investment Schemes (the "CIS Code") issued by the Monetary Authority of Singapore ("MAS") and the Code on Real Estate Investment Trust (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong ("SFC").

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (Continued)

The Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Fortune REIT and its subsidiaries controlled by Fortune REIT. Control is achieved when Fortune REIT:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Fortune REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Fortune REIT, obtains control over the subsidiary and ceases when Fortune REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the date Fortune REIT gains control until the date when Fortune REIT ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the owners of Fortune REIT and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Fortune REIT and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Income and expenses of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by Fortune REIT.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Investments in subsidiaries

Investments in subsidiaries are included in Fortune REIT's statement of financial position at cost less any identified impairment loss. Results of subsidiaries are accounted for by Fortune REIT on the basis of dividends received or receivable during the period.

(d) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs, including front-end fees and commitment fees, that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into “financial assets at fair value through profit or loss” and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the 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 affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. When such receivable is considered 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

Impairment of financial assets (Continued)

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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities.

Unit issue costs are the transactions costs relating to issue of units in Fortune REIT which are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transactions that otherwise would have been avoided. Other transaction costs are recognised as an expense.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at fair value through profit or loss

A financial liability carried at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including trade and other payables, distributable payable and borrowings) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derivative financial instruments and hedging

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 the 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 uses interest rate swaps to hedge its exposure against changes in interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

Derivative financial instruments and hedging (Continued)

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.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

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 cumulative gain or loss recognised in other comprehensive income and accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in hedging reserve is recognised immediately in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the course of the ordinary activities, net of discounts.

Rental income under operating leases, except for contingent rentals, is recognised in the profit or loss on a straight-line basis over the term of the relevant lease. In the event that lease incentives, including rent free periods, are given to enter into operating leases, such incentives are recognised as accrued rent receivables. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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.

Charge-out collections, which consist of payments in respect of the operation of the properties which are payable by the tenants and licensees, are recognised as income when the services and facilities are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from subsidiaries is recognised when Fortune REIT's right to receive payment has been established (provided that it is probable that economic benefits will flow to Fortune REIT and the amount of revenue can be measured reliably).

(h) Foreign currencies

The functional currency (the currency of the primary economic environment in which the entity operates) of Fortune REIT and its subsidiaries is Hong Kong dollars.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Foreign currencies (Continued)

In preparing the financial statements of each individual entity, transactions in currencies other than Hong Kong dollars are recorded in Hong Kong dollars at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 the translation of monetary items, are recognised in profit or loss in the period in which they arise.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Front-end fees incurred by Fortune REIT are amortised on a straight-line basis over the contractual term of the borrowings in the separate financial statements. These fees are treated as transaction costs of the Group's borrowings and included in determining the effective interest rate on initial recognition of the borrowings in the consolidated financial statements.

(j) Impairment of investments in subsidiaries

At the end of the reporting period, Fortune REIT reviews the carrying amounts of its investments in subsidiaries to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of investments in subsidiaries is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of investments in subsidiaries is estimated to be less than its carrying amount, the carrying amount of investments in subsidiaries is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of investments in subsidiaries 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 investments in subsidiaries in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

For the six months ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from “profit before taxation” as reported in the statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation (Continued)

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Manager is required to make 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 judgments or the use of estimation techniques which may have a significant effect on the amounts recognised in the financial statements other than as follows:

(a) Valuation of investment properties

As described in Notes 3(d) and 14, investment properties are stated at fair value based on the valuation performed by independent professional valuers. The valuers have determined the fair values using the basis of capitalisation of the net income 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 its judgement and is satisfied that the method of valuation is reflective of the current market conditions.

Notes to the Financial Statements

For the six months ended 30 June 2013

4 KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Valuation of derivative financial instruments

As described in Note 15, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

5 SEGMENTAL REPORTING

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which is the management of the Manager, in order to allocate resources to segments and to assess their performance.

The Group owns 16 (31 December 2012: 16) properties as at 30 June 2013 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

The major customers from whom more than 10% of the Group's revenue is derived consist of the subsidiaries of Hutchison Whampoa Limited ("HWL"), which is 49.9% owned by Cheung Kong (Holdings) Limited ("**Cheung Kong**") and is described as an associate of Cheung Kong in the latest published annual consolidated financial statements of Cheung Kong, as disclosed in Note 30. For the six months ended 30 June 2013, the Group's revenue from rental income and charge-out collections generated from the subsidiaries of HWL amounted to HK\$67.1 million (six months ended 30 June 2012: HK\$60.7 million) in aggregate.

6 REVENUE

| | Group | | Fortune REIT | |
|------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Dividend income | – | – | 308,041 | 268,751 |
| Basic rental | 440,756 | 389,716 | – | – |
| Charge-out collections | 114,641 | 101,482 | – | – |
| Other rental | 51,431 | 45,051 | – | – |
| Other income | 2,392 | 1,132 | – | – |
| | 609,220 | 537,381 | 308,041 | 268,751 |

The other rental include contingent rents of HK\$4.7 million (six months ended 30 June 2012: HK\$3.6 million), license fees of HK\$22.2 million (six months ended 30 June 2012: HK\$17.9 million) and car park revenue of HK\$23.9 million (six months ended 30 June 2012: HK\$20.4 million).

7 PROPERTY OPERATING EXPENSES

| | Group | |
|---|-------------------------------|---------------------------------|
| | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Building management expenses | 66,787 | 56,801 |
| Utilities | 19,420 | 18,090 |
| Government rents and rates | 24,370 | 21,282 |
| Manager's performance fee | 13,543 | 11,873 |
| Property manager fee | 14,147 | 12,465 |
| Carpark operating expenses | 7,258 | 6,238 |
| Advertising and promotion | 6,136 | 5,020 |
| Legal and other professional fees | 2,660 | 5,279 |
| Leasing commission and marketing services fee | 9,546 | 9,254 |
| Others | 7,773 | 8,970 |
| | 171,640 | 155,272 |

Notes to the Financial Statements

For the six months ended 30 June 2013

8 TRUST EXPENSES

| | Group | | Fortune REIT | |
|-----------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Trustee's fee | 3,564 | 3,164 | 3,564 | 3,164 |
| Acquisition fee | – | 19,000 | – | 19,000 |
| Front end fees | – | – | 9,780 | 8,404 |
| Other charges | 1,833 | 3,172 | 1,833 | 3,172 |
| | 5,397 | 25,336 | 15,177 | 33,740 |

Note:

Front end fees incurred by Fortune REIT in respect of its subsidiaries' bank borrowings are not recharged to the subsidiaries.

9 BORROWING COSTS

| | Group | |
|--|-------------------------------|---------------------------------|
| | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Interest expense on | | |
| – term loans | 30,672 | 28,109 |
| – revolving loans | 5,480 | 4,975 |
| Equalisation of interest expense through interest rate swaps | 29,605 | 27,073 |
| Commitment fee | 853 | 761 |
| Amortisation of front end fees | 9,780 | 8,404 |
| | 76,390 | 69,322 |

10 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

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

| | Group | | Fortune REIT | |
|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Audit fee | 1,500 | 1,447 | 353 | 353 |
| Fee to internal auditor | 165 | 165 | – | – |
| Valuation fees (paid to principal valuer) | 215 | 239 | – | – |

11 INCOME TAX EXPENSE

| | Group | | Fortune REIT | |
|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Current tax: | – | | | |
| – Hong Kong | 51,779 | 44,516 | – | – |
| – Singapore | 154 | 311 | 154 | 311 |
| – Over provision in prior year | (132) | – | – | – |
| | 51,801 | 44,827 | 154 | 311 |
| Deferred taxation (Note 19) | | | | |
| – Current period | 11,390 | 9,690 | – | – |
| – Under provision in prior year | 211 | 5 | – | – |
| | 11,601 | 9,695 | – | – |
| | 63,402 | 54,522 | 154 | 311 |

Notes to the Financial Statements

For the six months ended 30 June 2013

11 INCOME TAX EXPENSE (Continued)

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong profits tax at 16.5% (2012: 16.5%).

Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2012: 17%).

At present, Fortune REIT has not been accorded the tax transparency treatment and income earned will be subject to Singapore income tax 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 listing on 12 August 2003. 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 its subsidiaries that are distributed out of income (including interest income and gains from the sale of 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 its subsidiaries that are paid out of income or gains which are not subject to Hong Kong Profits Tax (except for gains from the sale of investments in Property Companies that are capital in nature), 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 its subsidiaries that have been confirmed by MOF to be capital gains.

11 INCOME TAX EXPENSE (Continued)

The income tax expense varied from the amount of income tax determined by applying the Hong Kong profits tax rate of 16.5% (30 June 2012: 16.5%) to the profit before taxation and transactions with unitholders as a result of the following differences:

| | Group | | Fortune REIT | |
|--|--------------------------|-------------|--------------------------|-------------|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2013 | 2012 | 2013 | 2012 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Audited) | (Unaudited) | (Audited) | (Unaudited) |
| Profit before taxation and transactions with unitholders | 2,391,419 | 1,199,903 | 262,093 | 208,745 |
| Tax at the applicable income tax rate | 394,584 | 197,984 | 43,245 | 34,443 |
| Tax effect of expenses not deductible for tax purpose | 9,690 | 11,419 | 7,731 | 10,203 |
| Tax effect of income not taxable for tax purpose | (340,956) | (154,895) | (50,827) | (44,344) |
| Effect of different tax rates of overseas operations | 5 | 9 | 5 | 9 |
| Under provision in prior year | 79 | 5 | – | – |
| Taxation for the period | 63,402 | 54,522 | 154 | 311 |

Hong Kong profits tax rate is used as it is the jurisdiction where the operations of the Group are substantially based.

Notes to the Financial Statements

For the six months ended 30 June 2013

12 EARNINGS PER UNIT

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders by the weighted average number of units outstanding during the period as follows:

| | Group | |
|--|--------------------------|---------------|
| | Six months ended 30 June | |
| | 2013 | 2012 |
| | HK\$'000 | HK\$'000 |
| | (Audited) | (Unaudited) |
| Profit for the period, before transactions with unitholders | 2,328,017 | 1,145,381 |
| Weighted average number of units outstanding during the period | | |
| Number of units | 1,702,831,381 | 1,691,456,932 |
| Basic earnings per unit (HK cents) | 136.71 | 67.72 |

The weighted average number of units outstanding during the period takes into account the 2,310,051 (2012: 3,150,378) units issuable as Manager's base fee for the period from 1 April 2013 to 30 June 2013 (2012: 1 April 2012 to 30 June 2012), which were issued to the Manager on 2 July 2013 (2012: 4 July 2012).

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

13 INVESTMENTS IN SUBSIDIARIES

| | Fortune REIT | |
|-------------------------------------|--------------|-------------|
| | 30 June | 31 December |
| | 2013 | 2012 |
| | HK\$'000 | HK\$'000 |
| | (Audited) | (Audited) |
| Unquoted ordinary shares, at cost | 3,103,540 | 3,103,540 |
| Unquoted preference shares, at cost | 2,366,384 | 2,366,384 |
| Unquoted deferred shares, at cost | 210 | 210 |
| | 5,470,134 | 5,470,134 |

13 INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries which are wholly owned by Fortune REIT as at 30 June 2013 and 31 December 2012 are follows:

| Name of company | Country/Place of incorporation | Effective equity interest held by Fortune REIT | | Nominal value of issued and fully paid capital | | | Principal activities |
|----------------------------------|--------------------------------|--|------------------|--|------------------------------|----------------------------|---|
| | | 30 June 2013 | 31 December 2012 | Ordinary shares | Redeemable preference shares | Non-voting deferred shares | |
| | | % | % | HK\$ | HK\$ | HK\$ | |
| Direct subsidiaries | | | | | | | |
| Ace Courage Limited | British Virgin Islands ("BVI") | 100 | 100 | 8 | 56,059 | – | Property investment in Centre de Laguna |
| Art Full Resources Limited | Hong Kong | 100 | 100 | 2 | 60,000 | – | Property investment in Nob Hill Square |
| Full Belief Limited | BVI | 100 | 100 | 8 | 109,000 | – | Property investment in Hampton Loft |
| Genuine Joy Limited | BVI | 100 | 100 | 8 | 328,000 | – | Property investment in Caribbean Square |
| Partner Now Limited | BVI | 100 | 100 | 8 | 30,810 | – | Property investment in Lido Avenue |
| Poko Shine Limited | Hong Kong | 100 | 100 | 2 | 336,000 | – | Property investment in Ma On Shan Plaza |
| Proven Effort Limited | BVI | 100 | 100 | 8 | 17,495 | – | Property investment in Rhine Avenue |
| Quick Switch Limited | BVI | 100 | 100 | 8 | 79,000 | – | Property investment in Smartland |
| Team Challenge Limited | BVI | 100 | 100 | 8 | 95,620 | – | Property investment in Tsing Yi Square |
| Vision Million Limited | BVI | 100 | 100 | 8 | 810,000 | – | Property investment in Fortune Metropolis |
| Waldorf Realty Limited | Hong Kong | 100 | 100 | 210,000 | – | 210,000 | Property investment in Waldorf Avenue |
| Yee Pang Realty Limited | Hong Kong | 100 | 100 | 10,000 | 8,000 | – | Property investment in Jubilee Square |
| Indirect subsidiaries | | | | | | | |
| Bysean Limited | Hong Kong | 100 | 100 | 2 | – | – | Property investment in part of the Belvedere Square |
| Bysky Limited | Hong Kong | 100 | 100 | 2 | – | – | Property investment in part of the Belvedere Square |
| Fullforce Limited | Hong Kong | 100 | 100 | 2 | – | – | Property investment in part of the Belvedere Square |
| Maulden Investments Limited | BVI | 100 | 100 | 8 | – | – | Property investment in Provident Square |
| Mega Gain Resources Limited | Hong Kong | 100 | 100 | 1 | 436,400 | – | Property investment in Metro Town |
| Million Nice Development Limited | Hong Kong | 100 | 100 | 2 | – | – | Property investment in Fortune City One |
| Quebostar Limited | Hong Kong | 100 | 100 | 100,000 | – | – | Property investment in part of the Belvedere Square |
| Swinley Investments Limited | BVI | 100 | 100 | 8 | – | – | Financing |
| Tidmarsh Investments Limited | BVI | 100 | 100 | 8 | – | – | Property investment in part of the Belvedere Square |

Notes to the Financial Statements

For the six months ended 30 June 2013

13 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

- (i) Information about the composition of the Group at the end of the reporting period is as follows:

| Principal activity | Place of incorporation | Number of wholly-owned subsidiaries | |
|-------------------------------|------------------------|-------------------------------------|-------------------------------|
| | | 30 June 2013 (Audited) | 31 December 2012 (Audited) |
| Property investment | Hong Kong | 10 | 10 |
| Property investment | BVI | 10 | 10 |
| Financing | BVI | 1 | 1 |
| Investment holding or dormant | Hong Kong | 5 | 5 |
| Investment holding or dormant | BVI | 7 | 7 |
| | | 33 | 33 |

- (ii) All redeemable preference shares are held by Fortune REIT.
The redeemable preference shares issued by the subsidiaries are redeemable at the option of the subsidiaries and they have the following terms:
- They do not carry any right to dividend;
 - They are not participating (i.e. there is no right to participate in the surplus profits of the subsidiary after payment of dividend to the holders of the ordinary shares);
 - They do not have any voting rights at general meetings of the subsidiary;
 - In the event of a winding up of the subsidiary, the holders of the redeemable preference shares have priority over the holders of the ordinary shares to repayment of capital and premium paid on the issue of such redeemable preference shares, but that the holders of the redeemable preference shares are not entitled to participate in the surplus assets (if any) of the subsidiary; and
 - Each redeemable preference share is redeemable at any time at the option of the subsidiary at a redemption price equal to the issue price thereof.
- (iii) The non-voting deferred shares held by Fortune REIT are subject to the following restrictions and provisions:
- They do not carry any right to dividend;
 - They do not have any voting rights at general meetings of the subsidiary; and
 - On a return of assets on winding up or otherwise, the assets of the subsidiary to be returned should be distributed as regards the first HK\$100,000,000,000 thereof among the holders of ordinary shares in proportion to the nominal amounts of ordinary shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the other half thereof to and among the holders of the ordinary shares in proportion in each case to the nominal amount of the shares held by them respectively.
- (iv) The place of operations of the above property investment subsidiaries is Hong Kong.
- (v) Except for the interests in Marvel Point Investments Limited and Mega Gain Resources Limited (31 December 2012: Marvel Point Investments Limited, and Mega Gain Resources Limited), interests in the remaining subsidiaries were pledged as securities for the loan and credit facility granted by the banks to the subsidiaries as disclosed in Note 18 (i) and (ii).

14 INVESTMENT PROPERTIES

| | Group | |
|---|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| FAIR VALUE | | |
| At beginning of period/year | 20,208,000 | 16,388,000 |
| During the period/year: | | |
| Acquisition of investment properties (Note (i)) | – | 1,900,000 |
| Stamp duty incurred in relation to acquisition | – | 9,500 |
| Capital expenditure incurred in upgrading investment properties | 23,185 | 114,237 |
| Disposal of investment properties | (1,150) | – |
| Change in fair value of investment properties | 1,957,965 | 1,796,263 |
| At end of period/year | 22,188,000 | 20,208,000 |

- (i) On 17 February 2012, Fortune REIT completed the acquisition of Belvedere Square and Provident Square from subsidiaries of HWL and Cheung Kong and an independent third party of Fortune REIT through direct acquisition of investment properties and acquisition of the entire equity interest in Recoup Investments Limited (“**Recoup**”) and 35% equity interest in Quebostar Limited (“**Quebostar**”) for a total cash consideration of HK\$1,900 million plus adjustments on the net current assets/liabilities of Recoup and Quebostar as at completion date of the acquisition.

The acquisition of Recoup and Quebostar has been accounted for as acquisition of assets and liabilities as it does not meet the definition of a business combination.

Notes to the Financial Statements

For the six months ended 30 June 2013

14 INVESTMENT PROPERTIES (Continued)

(i) (Continued)

The above acquisition was funded by the drawdown of a new bank borrowing as disclosed in Note 18 and utilisation of the revolving credit facility under the facility agreement dated 11 April 2011. Details of the acquisition are as follows:

| | Direct acquisition of investment properties HK\$'000 | Acquisition of subsidiaries HK\$'000 | Total HK\$'000 |
|--|--|--|--------------------|
| Investment properties | 714,456 | 1,185,544 | 1,900,000 |
| Cash and cash equivalents | – | 45,048 | 45,048 |
| Trade and other receivables | – | 8,315 | 8,315 |
| Trade and other payables | – | (19,057) | (19,057) |
| Provision for taxation | – | (2,527) | (2,527) |
| Total consideration, satisfied by cash | 714,456 | 1,217,323 | 1,931,779 |
| Net cash outflow arising on acquisition | | | |
| Cash consideration paid | (714,456) | (1,217,323) | (1,931,779) |
| Cash and cash equivalents acquired | – | 45,048 | 45,048 |
| Stamp duty incurred in related to acquisition | (9,500) | – | (9,500) |
| | (723,956) | (1,172,275) | (1,896,231) |

The amounts paid to subsidiaries of HWL and Cheung Kong and the independent third party were HK\$1,774,183,000, HK\$67,541,000 and HK\$90,055,000, respectively.

(ii) In estimating the fair value of investment properties, it is the Group's policy to engage third party qualified external valuer to perform the valuation. The Manager works closely with the qualified external valuer to establish the appropriate valuation technique and inputs to the model.

14 INVESTMENT PROPERTIES (Continued)

(ii) (Continued)

On 30 June 2013 and 31 December 2012, independent valuations were undertaken by Jones Lang LaSalle Limited (“**Jones Lang LaSalle**”) and Knight Frank Petty Limited (“**Knight Frank**”) respectively. The firms are independent qualified professional valuers not related to the Group and have appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was principally arrived at using the basis of capitalisation of the net income. 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 the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield which is the capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions of similar commercial properties in Hong Kong and adjusted to take account of the valuers’ knowledge of the market expectation from property investors to reflect factors specific to the Group’s investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The adopted capitalisation rates in the valuation range from 4.3% to 5.10%. The capitalisation rate is one of the key parameters in the valuation method of income capitalization and they involve professional adjustments made by the independent valuer.

(iii) All of the Group’s property interests in properties located in Hong Kong are either held under long leases or medium-term leases which are finance lease nature. The properties have been leased out under operating leases, most of which contain tenancy periods ranging from two to three years. Subsequent renewals are negotiated with the lessees at prevailing market rates.

The carrying amount of investment properties shown above comprise:

| | 30 June 2013 HK\$’000 (Audited) | 31 December 2012 HK\$’000 (Audited) |
|--------------------|--|--|
| Land in Hong Kong: | | |
| Long lease | 820,000 | 786,000 |
| Medium-term lease | 21,368,000 | 19,422,000 |
| | 22,188,000 | 20,208,000 |

Notes to the Financial Statements

For the six months ended 30 June 2013

14 INVESTMENT PROPERTIES (Continued)

- (iv) Certain properties with total fair value of HK\$17,381.0 million (31 December 2012: HK\$16,009.0 million) as at 30 June 2013 have been mortgaged as collaterals for credit facilities granted by the banks.

15 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Derivative financial instruments are analysed as: | | |
| Derivatives under hedge accounting: | | |
| Cash flow hedges – interest rate swaps | (45,419) | (70,697) |
| Derivatives not under hedge accounting: | | |
| Interest rate swaps | 35,461 | (74,660) |
| | (9,958) | (145,357) |
| Reflected on consolidated statement of financial position based on remaining contractual maturity as: | | |
| Non-current Assets | 71,159 | – |
| Non-current Liabilities | (71,987) | (145,357) |
| Current Liabilities | (9,130) | – |
| | (9,958) | (145,357) |

The Group uses interest rate swaps as hedging instruments in order 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.

Derivatives under hedge accounting:

Contracts with notional amount of HK\$1,415.0 million (31 December 2012: 1,415.0 million) as at 30 June 2013 will mature in April 2016 and are highly effective. These contracts have fixed interest payments at rates ranging from 2.00% to 2.017% per annum for the six months ended 30 June 2013 and have floating interest receipts at three months Hong Kong Inter-bank Offered Rate (“HIBOR”) repricing every three months.

15 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives under hedge accounting: (Continued)

The change in fair value of the derivative financial instruments, amounting to a gain of HK\$25.3 million (six months ended 30 June 2012: loss of HK\$17.1 million), is recognised in other comprehensive income for the six months ended 30 June 2013.

Derivatives not under hedge accounting:

Contracts not under hedge accounting with notional amount of HK\$614.5 million (31 December 2012: HK\$614.5 million), HK\$800.5 million (31 December 2012: HK\$800.5 million), HK\$614.5 million (31 December 2012: HK\$614.5 million), HK\$800.5 million (31 December 2012: HK\$800.5 million) and HK\$800.0 million (31 December 2012: HK\$800.0 million) as at 30 June 2013 will mature in March 2014, December 2014, April 2018, April 2018 and August 2019, respectively. These contracts have fixed interest payments at rates ranging from 1.08% to 2.91% (31 December 2012: 1.08% to 2.91%) per annum and have floating interest receipts at three months HIBOR repricing every three months. The interest payments/receipts for contracts with notional amounts of HK\$614.5 million and HK\$800.5 million will commence from March 2014 and January 2015, respectively.

The change in fair value of the derivative financial instruments not under hedge accounting amounting to a gain of HK\$110.1 million (six months ended 30 June 2012: gain of HK\$4.1 million), is recognised in the profit or loss for the six months ended 30 June 2013. In addition, as certain interest rate swap contracts were no longer highly effective, the respective cumulative losses from inception of the hedge until then that previously recognised in hedging reserve is released to profit or loss over the periods during which the interest payment in relation to the interest rate swap contracts affects the profit or loss. During the period, release of such cumulative losses from the hedging reserve amounted to HK\$2.9 million (six month ended 30 June 2012: Nil). Accordingly, the total change in fair value of derivative financial instruments recognised in profit or loss was a net gain of HK\$107.2 million (six months ended 30 June 2012: net gain of HK\$4.1 million).

The derivative financial instruments are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the remaining duration of the instruments.

The fair value of derivative financial instruments falls under Level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

Notes to the Financial Statements

For the six months ended 30 June 2013

16 TRADE AND OTHER RECEIVABLES

| | Group | | Fortune REIT | |
|---------------------------------------|--|--|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| (a) Trade receivables | | | | |
| Outside parties | 29,281 | 28,188 | – | – |
| Related parties (Note 30) | 1,645 | 1,815 | – | – |
| | 30,926 | 30,003 | – | – |
| (b) Other receivables and prepayments | | | | |
| Security deposits | 21,704 | 21,704 | – | – |
| Other receivables | 2,205 | 2,455 | 1,621 | 2,061 |
| Prepayments | 455 | 1,083 | 41,465 | 51,245 |
| | 24,364 | 25,242 | 43,086 | 53,306 |
| | 55,290 | 55,245 | 43,086 | 53,306 |

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

| | Group | |
|--------------|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| 0–30 days | 30,502 | 29,356 |
| 31–90 days | 394 | 594 |
| Over 90 days | 30 | 53 |
| | 30,926 | 30,003 |

16 TRADE AND OTHER RECEIVABLES (Continued)

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 from the date of the invoice. Interest will be charged on the outstanding amount overdue for more than 10 days at the rate of 12% per annum. The balances of trade receivables include accrued rentals in respect of rent free periods.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK\$2.9 million (31 December 2012: HK\$3.3 million) which are past due as at the reporting date for which the Group has not provided for doubtful debts as there has not been a significant change on credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The aging of the debtors which are past due but not impaired are as follows:

| | Group | |
|--------------|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| 1–30 days | 2,486 | 2,687 |
| 31–90 days | 394 | 594 |
| Over 90 days | 30 | 53 |
| | 2,910 | 3,334 |

In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants. Full provision will be made on the balance overdue for 90 days after setting off the relevant tenant's deposits. Accordingly, the Manager believes that there is no further credit provision required in excess of the allowance for doubtful debts.

Fortune REIT's prepayments included front end fees of HK\$41.4 million (31 December 2012: HK\$51.2 million) as at 30 June 2013 in respect of its subsidiaries' bank borrowings.

Notes to the Financial Statements

For the six months ended 30 June 2013

16 TRADE AND OTHER RECEIVABLES (Continued)

Other receivables and prepayments which are not denominated in the functional currency of the relevant Group entities are as follows:

| | Group and Fortune REIT | |
|--------------------------------------|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Denominated in: Singapore dollars | 1,683 | 1,638 |

17 BANK BALANCES AND CASH

| | Group | | Fortune REIT | |
|---|--|--|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Cash at bank and in hand | 84,465 | 156,127 | 11,715 | 16,414 |
| Fixed deposits with original maturity date less than 3 months | 468,041 | 421,895 | 448,041 | 421,895 |
| Cash and cash equivalents | 552,506 | 578,022 | 459,756 | 438,309 |
| Effective interest rate per annum | 0.60% | 0.57% | 0.64% | 0.75% |

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

| | Group and Fortune REIT | |
|--------------------------------------|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Denominated in: Singapore dollars | 2,567 | 3,712 |

18 BORROWINGS

| | Group | |
|--|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Secured term loans | 3,927,953 | 3,930,000 |
| Secured revolving loans | 840,000 | 940,000 |
| Less: unamortised front end fees | (41,405) | (51,185) |
| | 4,726,548 | 4,818,815 |
| Carrying amount repayable: | | |
| On demand or within one year | 840,000 | 940,000 |
| More than one year, but not more than two years | 1,081,824 | – |
| More than two years, but not more than five years | 2,804,724 | 3,878,815 |
| | 4,726,548 | 4,818,815 |
| Less: Amount due within one year shown under current liabilities | (840,000) | (940,000) |
| | 3,886,548 | 3,878,815 |

- (i) In relation to the term loan of HK\$2,830.0 million and revolving credit facility of HK\$970.0 million under the facility agreement dated 11 April 2011 for a term of five years (the “2011 Facilities”), the amounts outstanding under the 2011 Facilities drawn down by certain subsidiaries as at 30 June 2013 was HK\$3,668.0 million (31 December 2012: HK\$3,770.0 million). The 2011 Facilities are secured by, *inter alia*, a mortgage over certain investment properties and the Trustee (in its capacity as Trustee of Fortune REIT) has provided a guarantee for the 2011 Facilities. The 2011 Facilities bear interest at HIBOR plus a margin of 0.91% per annum.

Notes to the Financial Statements

For the six months ended 30 June 2013

18 BORROWINGS (Continued)

- (ii) In relation to the term loan of HK\$1,100.0 million and revolving credit facility of HK\$300.0 million under the facility agreement dated 14 February 2012 for a term of three years (the “2012 Facilities”), the amounts outstanding under the 2012 Facilities drawn down by a subsidiary as at 30 June 2013 was HK\$1,100.0 million (31 December 2012: HK\$1,100.0 million). The 2012 Facilities are secured by, *inter alia*, a mortgage over certain investment properties and the Trustee (in its capacity as Trustee of Fortune REIT) has provided a guarantee for the 2012 Facilities. The 2012 Facilities bear interest at HIBOR plus a margin of 2.00% per annum. The term loan of the 2012 Facilities was used to finance the acquisition of investment properties and subsidiaries as disclosed in Note 14.
- (iii) During the period, the Group has paid front end fees of Nil (year ended 31 December 2012: HK\$33.6 million) to the banks to secure the loan facilities. The front end fees are amortised over the respective loan periods. The movements in the front end fees and accumulated amortisation are as follow:

| | Group | |
|---------------------------------------|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| At beginning of period/year | 75,400 | 41,800 |
| Addition | – | 33,600 |
| At end of period/year | 75,400 | 75,400 |
| Movement in accumulated amortisation: | | |
| At beginning of period/year | (24,215) | (6,031) |
| Amortised during the period/year | (9,780) | (18,184) |
| At end of period/year | (33,995) | (24,215) |
| Net book values | 41,405 | 51,185 |

18 BORROWINGS (Continued)

(iv) The effective interest rates and repricing analysis:

| | Weighted average effective interest rate | | Principal amount | | Repricing within 3 months | |
|-----------------------------------|--|------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 |
| | % | % | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) |
| Interest bearing borrowing | | | | | | |
| Fixed rate* | 2.95 * | 2.95 * | 3,627,953 | 3,630,000 | 3,627,953 | 3,630,000 |
| Variable rate | 2.36 | 2.26 | 1,140,000 | 1,240,000 | 1,140,000 | 1,240,000 |
| | | | 4,767,953 | 4,870,000 | 4,767,953 | 4,870,000 |

* The effective interest rate had taken into account the effect of the interest rate swaps which were entered into to swap a portion of the Group's borrowings from floating rate to fixed rate and therefore the loan is analysed as fixed rate.

19 DEFERRED TAX LIABILITIES

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Financial Statements

For the six months ended 30 June 2013

19 DEFERRED TAX LIABILITIES (Continued)

The followings are the major component of deferred tax liabilities/(assets) recognised and movements therein during the period:

| | Accelerated tax depreciation | | Tax losses | | Total | |
|--|------------------------------|------------------|--------------|------------------|--------------|------------------|
| | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) |
| Group | | | | | | |
| At beginning of period/year | 196,253 | 173,434 | (3,367) | (3,367) | 192,886 | 170,067 |
| Charge to profit or loss for the period/year | 11,390 | 22,415 | – | – | 11,390 | 22,415 |
| Under provision in prior period/year | 211 | 404 | – | – | 211 | 404 |
| At end of period/year | 207,854 | 196,253 | (3,367) | (3,367) | 204,487 | 192,886 |

The investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

20 TRADE AND OTHER PAYABLES

| | Group | | Fortune REIT | |
|-----------------------------|--|--|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| (a) Trade payables | | | | |
| Tenants' deposits | | | | |
| – Outside parties | 297,208 | 287,244 | – | – |
| – Related parties (Note 30) | 7,700 | 7,416 | – | – |
| Rental received in advance | | | | |
| – Outside parties | 10,378 | 14,762 | – | – |
| | 315,286 | 309,422 | – | – |
| (b) Other payables | | | | |
| Trustee's fee | 1,820 | 1,728 | 1,820 | 1,728 |
| Other expenses | | | | |
| – Outside parties | 40,402 | 45,680 | 2,053 | 2,494 |
| – Related parties (Note 30) | 52,874 | 40,084 | – | – |
| – Manager (Note 30) | 4,494 | 4,328 | – | – |
| Interest payable | 5,377 | 5,901 | – | – |
| Others | 3,293 | 3,684 | 3,293 | 3,684 |
| | 108,260 | 101,405 | 7,166 | 7,906 |
| Total | 423,546 | 410,827 | 7,166 | 7,906 |

Notes to the Financial Statements

For the six months ended 30 June 2013

20 TRADE AND OTHER PAYABLES (Continued)

Trade and other payables comprise deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 30 days upon the termination of the tenancy agreement.

The tenants' deposits to be settled after twelve months from the reporting period based on lease term amounted to HK\$189.5 million (31 December 2012: HK\$181.4 million) as at 30 June 2013.

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

| | Group and Fortune REIT | |
|-------------------|------------------------|-----------------------|
| | 30 June 2013 | 31 December 2012 |
| | HK\$'000 (Audited) | HK\$'000 (Audited) |
| Denominated in: | | |
| Singapore dollars | 1,858 | 1,907 |

21 UNITS IN ISSUE AND TO BE ISSUED

Before the amendment of Trust Deed on 26 March 2010, Fortune REIT has no contractual obligation to pay or declare distribution of which is entirely at the discretion of the Manager pursuant to the Trust Deed. Accordingly, the issued units are classified as equity in accordance with IAS 32 Financial Instruments: Presentation ("IAS 32").

As a consequence of the dual primary listing on the SEHK, Fortune REIT has to comply with the distribution requirements set in the REIT Code issued by the SFC. In accordance with the amended Trust Deed, Fortune REIT's current distribution policy provides the unitholders with a right to receive distribution which Fortune REIT has a contractual obligation to distribute to unitholders at the higher of Net Tax-Exempt Income or 90% of consolidated Net Profit After Tax (defined in Note (i) to the distribution statement).

21 UNITS IN ISSUE AND TO BE ISSUED (Continued)

Accordingly, the issued units as at 30 June 2013 and 31 December 2012 are compound instruments in accordance with IAS 32. The Manager considers the equity component of the issued units to be insignificant and that the net assets attributable to unitholders presented on the statements of financial position as at 30 June 2013 and 31 December 2012 mainly represents financial liabilities.

| | Number of units '000 | HK\$'000 |
|---|----------------------------|-----------|
| Balance as at 1 January 2012 | 1,684,018 | 6,391,413 |
| Issue of new units during the year: | | |
| As payment of acquisition fee for the acquisition of Belvedere Square and Provident Square (Note (i)) | 4,809 | 19,000 |
| As payment of Manager's base fee for the period from 1 January to 30 September 2012 | 8,999 | 42,667 |
| Balance in issue as at 31 December 2012 | 1,697,826 | 6,453,080 |
| New units to be issued: | | |
| As payment of Manager's base fee for the period from 1 October 2012 to 31 December 2012 (Note (ii)) | 2,399 | 15,280 |
| Balance as at 1 January 2013 | 1,700,225 | 6,468,360 |
| Issue of new units during the period: | | |
| As payment of Manager's base fee for the period from 1 January to 31 March 2013 | 2,195 | 14,948 |
| Balance as at 30 June 2013 | 1,702,420 | 6,483,308 |
| New units to be issued: | | |
| As payment of Manager's base fee for the period from 1 April to 30 June 2013 (Note (ii)) | 2,310 | 16,595 |
| Balance in issue as at 30 June 2013 | 1,704,730 | 6,499,903 |

Notes to the Financial Statements

For the six months ended 30 June 2013

21 UNITS IN ISSUE AND TO BE ISSUED (Continued)

Notes:

- (i) On 17 February 2012, Fortune REIT issued 4,809,152 units to the Manager at HK\$3.9508 per unit as acquisition fee for the acquisition of investment properties and subsidiaries as disclosed in Note 14. The acquisition fee was calculated at 1.0% of the consideration paid for the acquired properties of HK\$1,900 million and were paid by way of units.
- (ii) Manager's base fee paid to the Manager is in the form of units. On 2 July 2013, Fortune REIT issued 2,310,051 units at an issue price of HK\$7.1840 per unit to the Manager as base fee for the period from 1 April to 30 June 2013. On 3 January 2013, Fortune REIT issued 2,399,436 units at an issue price of HK\$6.3684 per unit to the Manager as base fee for the period from 1 October 2012 to 31 December 2012.

22 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$17,058.5 million (31 December 2012: HK\$14,977.7 million) and the total number of 1,704,730,532 (31 December 2012: 1,700,225,414) units in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

23 NET CURRENT LIABILITIES

As at 30 June 2013, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,037.7 million (31 December 2012: HK\$1,013.2 million).

24 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2013, the Group's total assets less current liabilities amounted to HK\$21,221.5 million (31 December 2012: HK\$19,194.8 million).

25 CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group and Fortune REIT 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 debt and net assets attributable to unitholders, and to ensure that all other externally imposed capital requirements are complied with.

The capital structure of the Group consists of debts, which includes borrowings, cash and cash equivalents and net assets attributable to unitholders comprising issued and issuable units, reserves and retained profits. Fortune REIT and the Group are required to maintain the aggregate borrowings, which amounted to HK\$4,768 million as at 30 June 2013 (31 December 2012: HK\$4,870 million), not exceeding 35% (31 December 2012: 35%) and 45% (31 December 2012: 45%) of the gross asset value of the Group in accordance with the CIS Code issued by MAS and the REIT Code issued by SFC, respectively.

The management's strategy remains unchanged from prior year. The Group and Fortune REIT is in compliance with externally imposed capital requirements for the six months ended 30 June 2013.

26 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | Group | | Fortune REIT | |
|--|--|--|--|--|
| | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
| Financial assets | | | | |
| <i>Loans and receivables</i> | | | | |
| Trade and other receivables | 54,835 | 54,162 | 1,621 | 2,061 |
| Bank balances and cash | 552,506 | 578,022 | 459,756 | 438,309 |
| | 607,341 | 632,184 | 461,377 | 440,370 |
| <i>Fair value</i> | | | | |
| Derivative financial instruments | | | | |
| – Not under designated hedge accounting | 71,159 | – | – | – |
| Financial liabilities | | | | |
| <i>Amortised cost</i> | | | | |
| Other payables | 74,421 | 62,001 | 5,113 | 4,042 |
| Distribution payable | 306,965 | 281,135 | 306,965 | 281,135 |
| Borrowings | 4,726,548 | 4,818,815 | – | – |
| | 5,107,934 | 5,161,951 | 312,078 | 285,177 |
| <i>Fair value</i> | | | | |
| Derivative financial instruments | | | | |
| – In designated hedge accounting relationships | 45,419 | 70,697 | – | – |
| – Not under designated hedge accounting | 35,698 | 74,660 | – | – |
| | 81,117 | 145,357 | – | – |

Notes to the Financial Statements

For the six months ended 30 June 2013

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

Details of the Group's and Fortune REIT's financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, interest rate risk, foreign currency risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The Manager manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group's and Fortune REIT'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 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.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the Group's exposure to interest rates for derivative and non-derivative instruments at the end of last reporting period and assumed the stipulated changes taking place at the beginning of last financial year and held constant throughout last financial period in the case of financial instruments that bear interest at floating rates. A range of 25 to 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 reasonably possible change in interest rates.

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit for the period 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:

| | Decrease in the Group's profit | |
|-----------------|---|---|
| | For the six months ended 30 June 2013 HK\$'000 (Audited) | For the six months ended 30 June 2012 HK\$'000 (Unaudited) |
| 25 basis points | 1,425 | 1,575 |
| 50 basis points | 2,850 | 3,150 |
| 75 basis points | 4,275 | 4,725 |

No interest rate sensitivity analysis in relation to time deposit of the Group and Fortune REIT as the Manager considered that the impact of interest rate risk on profit or loss for the period was insignificant.

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 receivables from tenant or counterparty. The Manager 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.

Notes to the Financial Statements

For the six months ended 30 June 2013

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

The credit risk on liquid funds is limited because cash and fixed deposits are placed with reputable bank with high credit ratings assigned by international credit-rating agencies.

The credit risk on derivative financial instrument is limited because the counterparties are bank with high credit ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk of the Group and Fortune REIT is represented by the carrying value of each financial asset on the statements of financial position.

Foreign currency risk

The functional currency of Fortune REIT and its subsidiaries is Hong Kong dollars.

The net carrying amounts of monetary assets denominated in currencies other than their functional currency arise from Singapore dollars (“S\$”) denominated bank balances and deposits, other receivables and other payables amounting to HK\$2.4 million (31 December 2012: HK\$3.4 million and 30 June 2012: HK\$7.4 million) as at 30 June 2013. The foreign currency risk is managed by the Manager on an ongoing basis as well as to minimising the bank balance in Singapore dollars.

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

If HK\$ were to strengthen against S\$ by 5%, 10% and 15% (30 June 2012: 5%, 10% and 15%), the Group's profit for the period would decrease by:

| | Decrease in the Group's and Fortune REIT's result | |
|-----|--|--|
| | Six months ended 30 June 2013 HK\$'000 (Audited) | Six months ended 30 June 2012 HK\$'000 (Unaudited) |
| 5% | 60 | 185 |
| 10% | 120 | 370 |
| 15% | 180 | 555 |

Conversely, if the HK\$ were to weaken against S\$, there would be an equal and opposite effect on the Group's profit for the period/year.

Liquidity risk

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate by the Manager to finance the Group's and Fortune REIT's operations. In addition, the Manager also monitors and observes the CIS Code and REIT Code concerning limits of total borrowings.

Notes to the Financial Statements

For the six months ended 30 June 2013

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 30 June 2013, the Group had bank loan facilities of HK\$5,200.0 million comprising a HK\$3,930.0 million term loan and a HK\$1,270.0 million revolving credit facilities. The term loan facilities were fully drawn and revolving credit facilities of HK\$840.0 million were drawn as at 30 June 2013. 2011 Facilities and 2012 Facilities are repayable five years from 11 April 2011 and three years from 14 February 2012, respectively. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity. Investment properties with aggregate carrying value of HK\$17,381.0 million have been pledged to secure banking facilities granted to the Group. Taking into a cash balance of HK\$552.5 million and available unutilised revolving credit facility of HK\$430.0 million as at 30 June 2013, the Group has sufficient financial resources to satisfy its commitments and working capital requirements although the Group's net current liabilities amounted to HK\$1,037.7 million as at 30 June 2013 (31 December 2012: net current liabilities of HK\$1,013.2 million).

Liquidity risk analysis

The following table details the Group's and Fortune REIT's remaining contractual maturity for its financial liabilities (other than issued and issuable units) based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Fortune REIT can be required to pay.

For derivative instruments settled on a net basis, undiscounted net cash outflows are presented. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date. The liquidity analysis for derivative financial instruments is prepared based on the contractual maturities as the management considers the contractual maturities are essential for an understanding of the timing of the cash flows of the derivatives.

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk analysis (Continued)

The Group's derivative financial instruments are interest rate swaps with notional amount totaling HK\$5,045 million (31 December 2012: HK\$ 5,045 million) as at 30 June 2013 with contracted net cash flows due within six years (31 December 2012: seven years) from inception date.

Group

| | Weighted average interest rate % | On demand or less than 3 months HK\$'000 (Audited) | 3 months to 1 year HK\$'000 (Audited) | 1 year to 2 years HK\$'000 (Audited) | 2 years to 5 years HK\$'000 (Audited) | Over 5 years HK\$'000 (Audited) | Total undiscounted cash flows HK\$'000 (Audited) | Carrying amount as at 30 June 2013 HK\$'000 (Audited) |
|---|--|--|--|---|--|--|--|--|
| 30 June 2013 | | | | | | | | |
| Non-derivative-net settlement | | | | | | | | |
| Tenants' deposits | – | 47,629 | 67,773 | 112,679 | 73,077 | 3,750 | 304,908 | 304,908 |
| Other payables | – | 74,421 | – | – | – | – | 74,421 | 74,421 |
| Bank borrowings – variable rate | 1.34 | 18,986 | 56,339 | 1,165,005 | 3,705,273 | – | 4,945,603 | 4,726,548 |
| Distribution payable | – | 306,965 | – | – | – | – | 306,965 | 306,965 |
| Cash outflow | | 448,001 | 124,112 | 1,277,684 | 3,778,350 | 3,750 | 5,631,897 | 5,412,842 |
| Derivative-net settlement | | | | | | | | |
| Derivative financial instruments, cash outflow | | 13,631 | 35,475 | 27,936 | 12,190 | – | 89,232 | 81,117 |
| 31 December 2012 | | | | | | | | |
| Non-derivative-net settlement | | | | | | | | |
| Tenants' deposits | – | 29,663 | 83,581 | 100,635 | 74,828 | 5,953 | 294,660 | 294,660 |
| Other payables | – | 62,001 | – | – | – | – | 62,001 | 62,001 |
| Bank borrowings – variable rate | 1.39 | 118,834 | 57,375 | 76,152 | 4,835,198 | – | 5,087,559 | 4,818,815 |
| Distribution payable | – | 281,135 | – | – | – | – | 281,135 | 281,135 |
| Cash outflow | | 491,633 | 140,956 | 176,787 | 4,910,026 | 5,953 | 5,725,355 | 5,456,611 |
| Derivative-net settlement | | | | | | | | |
| Derivative financial instruments, cash outflow | | 14,926 | 45,408 | 53,357 | 66,365 | 5,386 | 185,442 | 145,357 |

Notes to the Financial Statements

For the six months ended 30 June 2013

26 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Fortune REIT

| | On demand or less than 3 months HK\$'000 (Audited) | Total undiscounted cash flows HK\$'000 (Audited) | Carrying amount as at 30 June 2013 HK\$'000 (Audited) |
|-------------------------|--|--|---|
| 30 June 2013 | | | |
| Other payables | 5,113 | 5,113 | 5,113 |
| Distribution payable | 306,965 | 306,965 | 306,965 |
| | 312,078 | 312,078 | 312,078 |
| 31 December 2012 | | | |
| Other payables | 4,042 | 4,042 | 4,042 |
| Distribution payable | 281,135 | 281,135 | 281,135 |
| | 285,177 | 285,177 | 285,177 |

(c) Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The long-term borrowings are floating rate loans based on market interest rates and hence their carrying values approximate their fair value.

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally acceptable pricing models based on discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

26 FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

The fair value of derivative instruments is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

27 OPERATING LEASE ARRANGEMENTS

| | Group | |
|---|-----------------------|-----------------------|
| | 30 June 2013 | 31 December 2012 |
| | HK\$'000 (Audited) | HK\$'000 (Audited) |
| Minimum lease income under operating leases included in revenue | 440,756 | 808,339 |

As at the end of the reporting period, the future minimum lease receipts under the committed rental of shopping mall premises were as follows:

| | Outside parties | | Related parties | | Total | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 |
| | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) |
| Within one year | 493,295 | 621,071 | 231,101 | 96,241 | 724,396 | 717,312 |
| In the second to fifth year inclusive | 373,854 | 453,235 | 176,787 | 70,431 | 550,641 | 523,666 |
| Over five years | 5,320 | 9,876 | – | 264 | 5,320 | 10,140 |
| | 872,469 | 1,084,182 | 407,888 | 166,936 | 1,280,357 | 1,251,118 |

Notes to the Financial Statements

For the six months ended 30 June 2013

27 OPERATING LEASE ARRANGEMENTS (Continued)

The Group rents out its investment properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Group for its investment properties. Leases are negotiated for term ranging primarily from one to three years with monthly fixed rental, except for certain leases of which contingent rents are charged based on the percentage of sales mainly ranging from 2% to 18%.

28 CAPITAL COMMITMENT

As at 30 June 2013, the Group had capital commitments in respect of investment properties which were authorised but not contracted for of HK\$80.8 million (31 December 2012: HK\$116.7 million) and contracted but not provided for HK\$43.0 million (31 December 2012: HK\$33.2 million).

29 MAJOR NON CASH TRANSACTIONS

During the period, Manager's base fee for the six months ended 30 June 2013 of HK\$31.5 million was settled by the issuance of 4,505,118 units.

In prior period, Manager's base fee and acquisition fee for the six months ended 30 June 2012 of HK\$28.1 million and HK\$19.0 million were and will be settled by the issuance of 6,510,686 units and 4,809,152 units, respectively.

30 CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, in addition to the acquisition of investment properties and subsidiaries as disclosed in Note 14(i), the Group entered into the following transactions with connected and related parties.

| | Notes | Six months ended 30 June | |
|---|-------|-------------------------------|---------------------------------|
| | | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Rent and rental related income from | | | |
| AMTD Strategic Capital Limited | (a) | 3,119 | 3,097 |
| ARA Asset Management (Fortune) Limited | (f) | 281 | – |
| A.S. Watson Group (HK) Limited | (b) | 61,067 | 55,866 |
| BIGBOXX.com Limited | (b) | 966 | 696 |
| Big Sky Resources Limited | (a) | – | 24 |
| Cheung Kong Property Development Limited | (a) | 16,975 | 13,075 |
| Cheung Kong | (c) | – | 483 |
| Citybase Property Management Limited | (a) | 1,424 | 1,785 |
| Hang Seng Bank Limited | (d) | 3,360 | 2,269 |
| HSBC Life (International) Limited | (d) | 17 | – |
| Hutchison Global Communications Limited | (b) | 580 | 423 |
| Hutchison International Limited | (b) | 1,335 | 839 |
| Hutchison Telephone Company Limited | (b) | 3,049 | 2,874 |
| The Hongkong and Shanghai Banking Corporation Limited ("HSBC") | (d) | 2,943 | 2,947 |
| Towerich Limited | (a) | 25 | 44 |
| Carpark lease agency fee for the operations of the Group's carpark | | | |
| Cayley Property Management Limited | (b) | 101 | 51 |
| E-Park Parking Management Limited | (a) | 1,951 | 1,777 |
| Property management fee | | | |
| Cayley Property Management Limited | (b) | 237 | 143 |

Notes to the Financial Statements

For the six months ended 30 June 2013

30 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

| | Notes | Six months ended 30 June | |
|---|-------|-------------------------------|---------------------------------|
| | | 2013 HK\$'000 (Audited) | 2012 HK\$'000 (Unaudited) |
| Citybase Property Management Limited | (a) | 435 | 405 |
| Goodwell-Fortune Property Services Limited | (a) | 13,566 | 11,553 |
| Goodwell Property Management Limited | (a) | 65 | 65 |
| Whampoa Property Management Limited | (b) | 340 | 187 |
| Marketing services fee | | | |
| Goodwell-Fortune Property Services Limited | (a) | 9,456 | 8,509 |
| Advertising and promotion expenses | | | |
| Metro Broadcast Corporation Limited | (e) | 258 | 168 |
| Trustee's fee | | | |
| HSBC Institutional Trust Services (Singapore) Limited | | 3,564 | 3,164 |
| Manager's acquisition fee | | | |
| ARA Asset Management (Fortune) Limited | (f) | – | 19,000 |
| Manager's base fee | | | |
| ARA Asset Management (Fortune) Limited | (f) | 31,543 | 28,097 |
| Manager's performance fee | | | |
| ARA Asset Management (Fortune) Limited | (f) | 13,543 | 11,873 |

30 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------|-------------------------|
| | | 2013 | 2012 |
| | | HK\$'000 (Audited) | HK\$'000 (Unaudited) |
| Back-office support service fee | | | |
| Cheung Kong | (c) | – | 302 |
| Valuation and other fees | | | |
| Jones Lang LaSalle | (g) | 215 | – |
| Knight Frank | (g) | – | 239 |

| | | 30 June | 31 December |
|---|-----|-----------------------|-----------------------|
| | | 2013 | 2012 |
| | | HK\$'000 (Audited) | HK\$'000 (Audited) |
| Trade receivables with connected and related companies are as follows: | | | |
| A.S Watson Group (HK) Limited | (b) | – | 37 |
| Cheung Kong Property Development Limited | (a) | 1,645 | 1,735 |
| Hutchison Telephone Company Limited | (b) | – | 43 |
| | | 1,645 | 1,815 |

Notes to the Financial Statements

For the six months ended 30 June 2013

30 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

| | Notes | 30 June 2013 HK\$'000 (Audited) | 31 December 2012 HK\$'000 (Audited) |
|---|-------|--|--|
| Other payables with connected and related companies are as follows: | | | |
| ARA Asset Management (Fortune) Limited | (f) | 4,494 | 4,328 |
| Cayley Property Management Limited | (b) | 2,646 | 3,976 |
| Citybase Property Management Limited | (a) | 8,957 | 8,645 |
| Citytruth Property Management Limited | (a) | 1,046 | 685 |
| E-Park Parking Management Limited | (a) | 666 | 730 |
| Goodwell-Fortune Property Services Limited | (a) | 7,430 | 7,812 |
| Goodwell Property Management Limited | (a) | 29,484 | 14,565 |
| Whampoa Property Management Limited | (b) | 2,567 | 3,371 |
| Metro Broadcast Corporation Limited | (e) | 78 | 300 |
| | | 57,368 | 44,412 |
| Deposits placed with the Group for the lease of the Group's properties | | | |
| AMTD Strategic Capital Limited | (a) | 1,663 | 1,643 |
| ARA Asset Management (Fortune) Limited | (f) | 149 | 147 |
| A.S. Watson Group (HK) Limited | (b) | 491 | 435 |
| Citybase Property Management Limited | (a) | 982 | 972 |
| Hang Seng Bank Limited | (d) | 2,694 | 2,670 |
| HSBC | (d) | 632 | 629 |
| Hutchison Telephone Company Limited | (b) | 1,076 | 907 |
| Towerich Limited | (a) | 13 | 13 |
| | | 7,700 | 7,416 |

30 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) These companies are the subsidiaries of Cheung Kong (see Note (c)).
- (b) These companies are the subsidiaries of HWL, which is 49.9% owned by Cheung Kong and is described as an associate of Cheung Kong in the latest published annual consolidated financial statements of Cheung Kong.
- (c) The company is the largest unitholder with approximately 31% holding of the outstanding units of Fortune REIT at the end of the reporting period.
- (d) These companies are the fellow subsidiaries of the Trustee.
- (e) The company is an associate of Cheung Kong.
- (f) The company is the Manager of Fortune REIT.
- (g) Jones Lang LaSalle and Knight Frank are the principal valuers of investment properties as at 30 June 2013 and 31 December 2012, respectively.

In addition, the Trustee (in its capacity as trustee of Fortune REIT) has provided guarantees for the 2012 Facilities and 2011 Facilities.

Performance Table

| | 30 June 2013 (Audited) | 31 December 2012 (Audited) |
|---|------------------------------|----------------------------------|
| Net asset attributable to Unitholders (HK\$'000) | 17,058,487 | 14,977,709 |
| Net asset value per unit (HK\$) | 10.01 | 8.81 |
| The highest traded price during the period/year (HK\$) | 8.61 | 6.96 |
| The highest premium of the traded price to net asset value ¹ | N.A. | N.A. |
| The lowest traded price during the period/year (HK\$) | 6.43 | 3.70 |
| The highest discount of the traded price to net asset value | 35.8% | 58.0% |
| The net yield per unit ² | 5.11% | 5.07% |

Notes:

1. The highest traded price is lower than the net asset value per unit as at the end of the period. Accordingly, premium of the traded price to net asset value per unit had not been recorded.
2. The net yield per unit for the six months ended 30 June 2013 is an annualized yield based on the distribution per unit of 18.00 HK cents for the six months ended 30 June 2013 and the average of the two closing unit prices of HK\$7.11 in Singapore and HK\$7.09 in Hong Kong as at 28 June 2013.

The net yield per unit for the year ended 31 December 2012 is based on the distribution per unit of 32.35 HK cents for the year ended 31 December 2012 and the average of the two closing unit prices of HK\$6.37 in Singapore and HK\$6.39 in Hong Kong as at 31 December 2012.

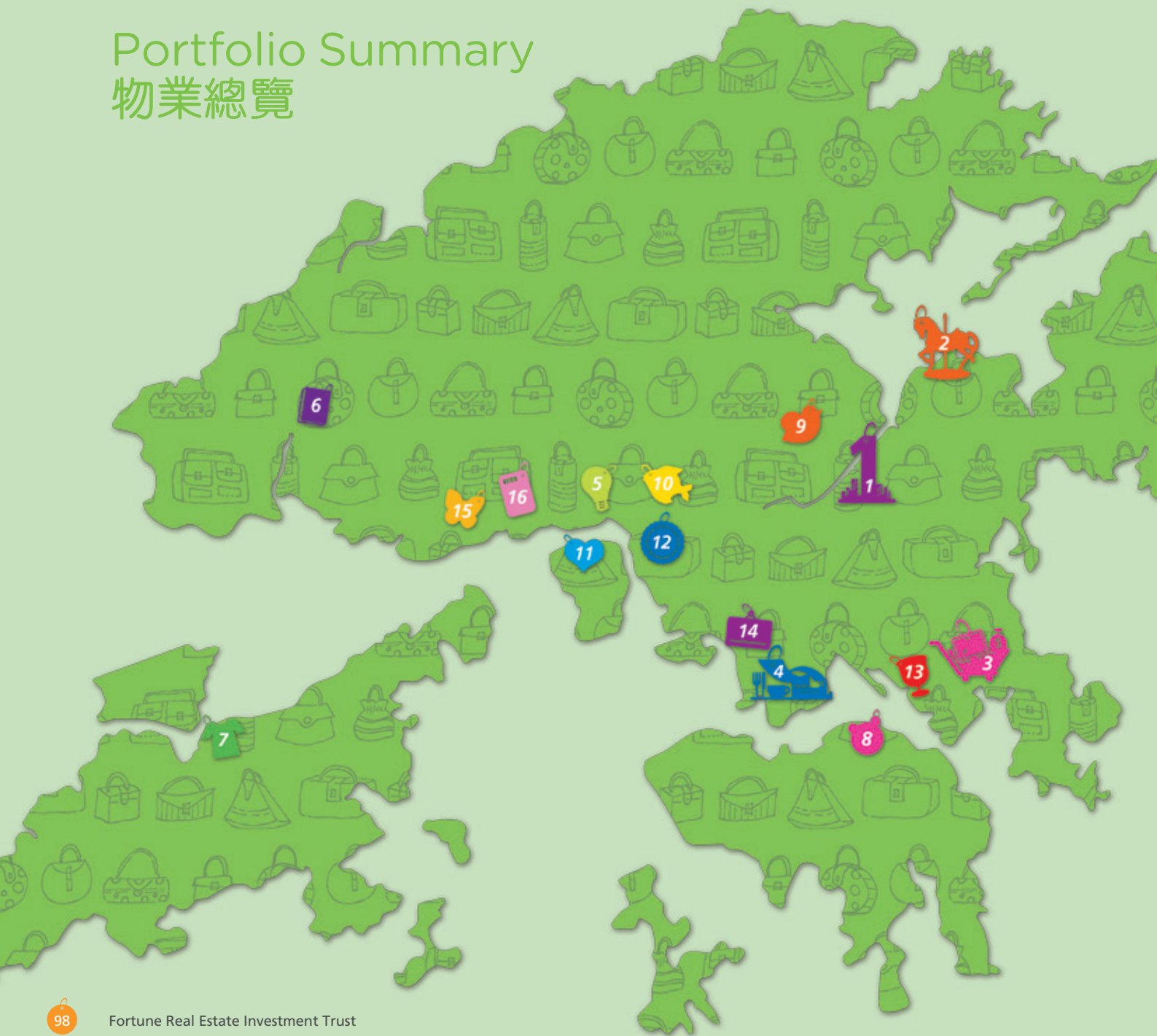


Portfolio Map & Summary

物業總覽

Portfolio Summary

物業總覽



As at 30 June 2013, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 2.45 million Sq. ft. of retail space and 1,984 car parking lots.

置富產業信託於2013年6月30日在香港有一個地域分佈廣泛的零售物業組合(包含16個零售商場及物業)，其中包括面積約245萬平方呎零售樓面及1,984車位。

| Property | 物業 | Gross Rentable Area (Sq.ft.) 可出租總面積 (平方呎) | Valuation (HK\$ million) 估值 (百萬港元) | Occupancy 出租率 | Number of Car Parking Lots 車位數目 | |
|------------------------------|--------------------|---|--|------------------|------------------------------------|--------------|
| 1 | Fortune City One | 置富第一城 | 414,469 | 5,747 | 91.4% | 653 |
| 2 | Ma On Shan Plaza | 馬鞍山廣場 | 310,084 | 4,172 | 99.6% | 290 |
| 3 | Metro Town | 都會駅 | 180,822 | 2,666 | 100.0% | 74 |
| 4 | Fortune Metropolis | 置富都會 | 332,168 | 1,927 | 98.5% | 179 |
| 5 | Belvedere Square | 麗城薈 | 276,862 | 1,648 | 100.0% | 329 |
| 6 | Waldorf Avenue | 華都大道 | 80,842 | 1,385 | 100.0% | 73 |
| 7 | Caribbean Square | 映灣薈 | 63,018 | 855 | 100.0% | 117 |
| 8 | Provident Square | 和富薈 | 180,238 | 820 | 100.0% | N.A |
| 9 | Jubilee Square | 銀禧薈 | 170,616 | 756 | 97.3% | 97 |
| 10 | Smartland | 荃薈 | 123,544 | 563 | 94.8% | 67 |
| 11 | Tsing Yi Square | 青怡薈 | 78,836 | 508 | 100.0% | 27 |
| 12 | Nob Hill Square | 盈暉薈 | 91,779 | 394 | 99.6% | 43 |
| 13 | Centre de Laguna | 城中薈 | 43,000 | 244 | 100.0% | N.A |
| 14 | Hampton Loft | 凱帆薈 | 74,734 | 229 | 100.0% | 35 |
| 15 | Lido Avenue | 麗都大道 | 9,836 | 167 | 100.0% | N.A |
| 16 | Rhine Avenue | 海韻大道 | 14,604 | 107 | 100.0% | N.A |
| Total/Overall Average | | 合計/總平均值 | 2,445,452 | 22,188 | 97.8% | 1,984 |

Manager 管理人



ARA Asset Management (Fortune) Limited
置富資產管理有限公司



www.fortunereit.com
www.fortunemalls.com.hk

