FORTUNE 置富產業信託 REIT

Fortune Real Estate Investment Trust

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 778)

Managed by

ARA (An Affiliate of Cheung Kong Group)

ARA Asset Management (Fortune) Limited

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012 AND CLOSURE OF REGISTER OF UNITHOLDERS

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

Fortune REIT holds a portfolio of sixteen retail properties in Hong Kong, comprising approximately 2.45 million square feet of retail space and 1,989 car parking lots. The retail properties are Fortune City One, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Waldorf Avenue, Provident Square, Caribbean Square, Jubilee Square, Smartland, Tsing Yi Square, Nob Hill Square, Centre de Laguna, Hampton Loft, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of the Manager (the "**Board**") is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2012 (the "**Reporting Period**") as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2012	Six months ended 30 June 2011	% change
Revenue (HK$ million)	**537.4**	**446.8**	+20.3%
Net property income (HK$ million)	**382.1**	**319.5**	+19.6%
Cost-to-revenue ratio	**26.7%**	**26.3%**	+0.4%
Income available for distribution (HK$ million)	**268.3**	**214.8**	+24.9%
Distribution per unit (HK cents)	**15.82**	**12.80**	+23.6%
	As at 30 Jun 2012	As at 31 Dec 2011	% change
Net asset value per unit (HK$)	**8.34**	**7.85**	+6.2%
Property valuation (HK$ million)	**19,268**	**16,388**	+17.6%
Gearing ratio / Aggregate leverage[1]	**24.5%**	**18.8%**	+5.7%

Note:
1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 30 June 2012, there was no deferred payment.

DISTRIBUTION

Fortune REIT's distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (i) 100% of its tax exempt income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses; and (ii) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial year adjusted to eliminate the effects of certain adjustments in accordance with the Code on Real Estate Investment Trusts (the "**REIT Code**") published by the Securities and Futures Commission of Hong Kong ("**SFC**").

FINANCIAL REVIEW

Fortune REIT achieved record-breaking results during the first half of 2012, driven by the spectacular success of its three core growth strategies.

For the six months ended 30 June 2012, Fortune REIT's revenue and net property income surged by 20.3% and 19.6% year-on-year to a historical high of HK$537.4 million and HK$382.1 million respectively, representing some of the highest growth rates recorded in its nine years of operating history. Fortune REIT's exceptional financial performance was attributable to (i) the strong rental reversions across its enlarged portfolio; (ii) the additional income generated by the two new properties acquired in February 2012; as well as (iii) remarkable returns from the completed asset enhancement initiatives ("**AEIs**"). The successful execution of the three core growth strategies: active leasing management, yield-accretive acquisition and AEIs have contributed to Fortune REIT's success.

Borrowing costs, excluding debt front-end fees, for the Reporting Period totalled HK$60.9 million, a decrease of 2.9% over the first half of 2011.

Stronger financial results have kept the positive growth momentum in distributable income on track. The unaudited income available for distribution for the Reporting Period amounted to HK$268.3 million, a year-on-year increase of 24.9%. The distribution per unit ("**DPU**") for the Reporting Period was 15.82 Hong Kong cents, 23.6% higher than the DPU of 12.80 Hong Kong cents from the corresponding period in 2011.

The interim DPU of 15.82 Hong Kong cents represents an annualised distribution yield of 6.9% based on an unit price of HK$4.60, the average of the two closing unit prices in Singapore and Hong Kong as at 29 June 2012. Supported by the good first quarter results and the resilient nature of Fortune REIT, unit price performance during the Reporting Period was particularly strong even amidst a downward macroeconomic trend. With an increase of 21.9% during the Reporting Period, Fortune REIT's unit performance outperformed its peers and the other benchmarking market indices.

The outstanding performance of Fortune REIT has been widely recognised in the industry. Fortune REIT was selected as Hong Kong Best Mid-Cap Company and ranked third in the category of "Most Committed to a Strong Dividend Policy in Hong Kong" in the Asia's Best Companies 2012 Poll by FinanceAsia.

Acquisitions completed in February 2012

Fortune REIT successfully completed the acquisitions of Belvedere Square and Provident Square from the subsidiaries of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited and an independent third party for a consideration of approximately HK$1,932 million. Subsequent to obtaining unanimous approval from the independent Unitholders present in person or by proxy and voting at the extraordinary general meeting held on 19 January 2012, the transaction was completed on 17 February 2012.

To efficiently utilize Fortune REIT's debt headroom and achieve an optimized financing cost, the acquisition was funded fully by debt, thereby enhancing returns to the Unitholders.

With only a partial contribution during the Reporting Period, the two properties accounted for approximately 11.2% of the revenue increment during the Reporting Period. The valuation of Belvedere Square and Provident Square as at 30 June 2012 were appraised at HK$1,398 million and HK$737 million, representing a 7.5% and 8.4% increase from their valuations as at 30 September 2011 respectively.

Capital Management

Total committed loan facilities amounted to HK$5,200 million as at 30 June 2012. These comprised the existing loan facilities of HK$3,800 million (the "**2011 Facilities**") and a new three-year loan facility of HK$1,400 million (the "**2012 Facilities**"), which was entered into in February 2012. During the Reporting Period, HK$840 million and HK$1,100 million were drawn from the 2011 Facilities and 2012 Facilities respectively to fully finance the acquisition costs of the two new properties. As a result, the gearing ratio and aggregate leverage of Fortune REIT rose to 24.5% as at 30 June 2012 (31 December 2011: 18.8%). The gross liability, as a percentage of gross assets of Fortune REIT, was 29.3% as at 30 June 2012 (31 December 2011: 23.6%). The net current liabilities as at 30 June 2012 was HK$946.6 million mainly as a result of drawdown of the revolving credit facility of the 2011 Facilities to part finance the Acquisitions. There is an option to rollover the said revolving credit facility up until maturity.

Overall, the weighted average debt maturity of the 2011 Facilities and 2012 Facilities was 3.5 years and the debt expiry periods have been further spread out. The two Facilities are secured over Fortune REIT's 13 investment properties, which carried an aggregate fair value of HK$15,251 million as at 30 June 2012. The Trustee has provided a guarantee for both of the Facilities.

Available liquidity stood at HK$975 million as at 30 June 2012, comprising committed undrawn facilities of HK$310 million and cash on hand of HK$665 million. Fortune REIT possesses sufficient financial resources to satisfy its financial commitments and working capital requirements.

As at 30 June 2012, approximately 58% of Fortune REIT's debt exposure has been hedged to fixed rates through plain vanilla interest rate swaps. After taking into account the interest rate hedging arrangement and the interest savings from the 2011 Facilities, Fortune REIT's weighted average effective cost of borrowing has been brought down by 167 basis points to 2.77% for the Reporting Period (first half of 2011: 4.44%). 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$8.34 as at 30 June 2012, up 6.2% from HK$7.85 reported as at the end of 2011, mainly as a result of the increase in valuation of investment properties.

Portfolio Valuation

The valuation of Fortune REIT's 16 retail properties was HK$19,268 million as appraised by Knight Frank Petty Limited, an independent valuer, as at 30 June 2012. This represents a 17.6% increase from the valuation of HK$16,388 million as at 31 December 2011. The increase in valuation was contributed by an overall improvement in asset performance and the addition of two new properties. The higher valuation has resulted in a revaluation gain of HK$932.8 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2012, 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 1,989 car parking lots.

Property	Gross Rentable Area (Sq. ft.)	Valuation (HK$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	5,090	95.7%	658
Ma On Shan Plaza	310,084	3,549	99.7%	290
Metro Town	180,822	2,300	100.0%	74
Fortune Metropolis	332,168	1,763	91.5%	179
Belvedere Square	276,862	1,398	98.6%	329
Waldorf Avenue	80,842	1,215	100.0%	73
Provident Square	180,238	737	99.6%	N.A
Caribbean Square	63,018	707	100.0%	117
Jubilee Square	170,616	502	81.6%	97
Smartland	123,544	495	98.5%	67
Tsing Yi Square	78,836	454	100.0%	27
Nob Hill Square	91,779	374	99.4%	43
Centre de Laguna	43,000	224	100.0%	N.A
Hampton Loft	74,734	215	100.0%	35
Lido Avenue	9,836	143	100.0%	N.A
Rhine Avenue	14,604	102	100.0%	N.A
Total / Overall average	**2,445,452**	**19,268**	**96.5%**	**1,989**

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 AEIs continued to drive the revenue growth of the portfolio. Portfolio occupancy remained healthy at 96.5% as at 30 June 2012 (30 June 2011: 98.1%), despite frictional vacancies due to on-going AEIs at Fortune City One ("**FCO**") and Jubilee Square. A strong rental reversion of 20.6% was recorded for renewals during the Reporting Period, representing a significant improvement from 13.8% for the same period last year. Consequently, passing rent for the original portfolio went up by 11.5% year-on-year.

Operating expenses (excluding manager performance fee) stood at HK$143.4 million, 22.1% higher from the corresponding period last year. The increase was mainly due to the additional operating expenses for the two new properties as well as some one-off initial costs incurred when taking over the new properties. Meanwhile, cost-to-revenue ratio was contained at a healthy level of 26.7% (first half 2011: 26.3%).

Belvedere Square and Provident Square have seen notable improvement in operations after they were integrated into Fortune REIT's portfolio. Belvedere Square, with an immediate catchment of approximately 30,000 people, had previously been focusing on necessity and service trades. With more than 30% of leases expiring in the rest of 2012, the Manager is actively looking to broaden tenant and trade mix. Since February 2012, various retail shops and a new food and beverage shop have been introduced at Belvedere Square. On the other hand, Provident Square, Fortune REIT's first foray into Hong Kong Island, saw its occupancy significantly boosted to 99.6% as at 30 June 2012 (30 September 2011: 92.3%). These two new properties will continue to present growth opportunities for Fortune REIT.

Asset Enhancement Initiatives

The AEIs at Ma On Shan Plaza ("**MOSP**"), the second largest property in the portfolio, were completed at the end of last year with a total capital expenditure of approximately HK$12 million. The AEIs involved the downsizing of a 50,000 sq. ft. Chinese restaurant space, thus opening up a new corridor to allow for more retail and food and beverages offerings. Net property income for MOSP jumped 20.7% year-on-year and the AEIs provided an excellent return on investment ("**ROI**") of 73%.

The HK$100 million project to fully renovate FCO commenced in October 2011. The first phase of the renovation has already been completed and contributed to enhanced rental income during the Reporting Period. The remaining phases of AEIs at FCO are progressing well and scheduled for completion by the end of 2012. The Manager remains optimistic of achieving an ROI of at least 15% for the project.

The Manager has embarked on AEIs at Jubilee Square to capture the increasing demand within the immediate and expanding catchment area. Taking advantage of the expiry of approximately 40% of leases in the second half of 2012, a repositioning exercise has been developed for the third, sixth and seventh floors to improve tenant mix and bring in more diversified trades. Capital expenditure for the project is estimated to be HK$15 million with a target ROI of 15%. The AEIs are expected to be completed by the first half of 2013.

OUTLOOK

Hong Kong's economy moderated further in the first quarter of 2012. Gross domestic product grew just 0.4% from a year earlier, a notable reduction on the 5% growth in 2011. Nevertheless, the domestic economy has remained robust and resilient, with private consumption expenditure expanding 5.6% year-on-year in the first quarter of 2012. The retail sentiment remained positive, as the total value of retail sales in Hong Kong for the period from January to May 2012 increased by 13.5% compared to the same period last year. Fortune REIT's portfolio of 16 private housing estates retail properties will continue to benefit from the strong retail environment.

The leases that will expire in the second half of 2012 account for 18.2% and 16.7% of the gross rentable area and gross rental income of Fortune REIT's portfolio respectively. The Manager plans to continue to implement effective leasing and tenant repositioning strategies, as well as to execute a number of AEIs to drive revenue growth for Fortune REIT's retail properties. In addition, the Manager is looking to create synergies and improve the operating efficiency of the two newly acquired properties going forward.

Fortune REIT's financial position has been diversified and strengthened with the new 2012 Facilities. Refinancing risk has been kept to the minimum in the medium term with no loan facility expiring until 2015. With a low effective interest cost at 2.77%, a debt headroom of approximately HK$3.0 billion and available funds of HK$975 million, Fortune REIT's strong and flexible capital structure should continue to bode well for the Manager to capitalise on future acquisition opportunities that reinforce its investment objectives and provide long term benefits to its Unitholders.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2012, the total number of issued units of Fortune REIT was 1,692,187,125. As compared with the position as at 31 December 2011, a total of 11,491,183 new units were issued during the Reporting Period in the following manner:

- On 4 January 2012, 3,321,723 new units were issued to the Manager at the price of HK$3.7306 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$12.4 million payable by Fortune REIT for the period from 1 October 2011 to 31 December 2011.

- On 17 February 2012, 4,809,152 new units were issued to the Manager at the price of HK$3.9508 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's acquisition fee of HK$19.0 million payable by Fortune REIT for the acquisition of Belvedere Square and Provident Square.

- On 2 April 2012, 3,360,308 new units were issued to the Manager at the price of HK$4.0727 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$13.7 million payable by Fortune REIT for the period from 1 January 2012 to 31 March 2012.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 10,081,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Fortune REIT in a transparent manner and with built-in checks and balances. The Manager has adopted a compliance manual (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. The Manager is also subject to the applicable Singapore regulations and legislation as well as corporate governance practices and policies referred to in the Singapore Code of Corporate Governance 2005[(1)] (the "**Singapore Code**"). The Manager is committed to use its best endeavors to apply the principles and, to the extent applicable, comply with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK. 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 the Manager throughout the Reporting Period.

(1) The Singapore Code was revised by the Monetary Authority of Singapore on 2 May 2012 and will take effect for Fortune REIT and the Manager from the financial year commencing 1 January 2013.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of unitholders will be closed on Friday, 3 August 2012, during which day no transfer of units on the Hong Kong register of unitholders will be affected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Fortune REIT's Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 2 August 2012. The payment of interim distribution will be made to unitholders on Wednesday, 29 August 2012.

REVIEW OF INTERIM RESULTS

The unaudited interim results of Fortune REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager in accordance with their terms of reference. The unaudited interim results have also been reviewed by Fortune REIT's auditors in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

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 2012.

ISSUANCE OF INTERIM REPORT 2012

The 2012 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 2012.

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

Hong Kong, 20 July 2012

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Revenue	4	537,381	446,837
Property operating expenses		(155,272)	(127,310)
Net property income		**382,109**	**319,527**
Manager's base fee		(28,097)	(21,572)
Foreign currency exchange (loss)/gain		(11)	100
Interest income		3,614	1,435
Trust expenses	6	(25,336)	(7,313)
Change in fair value of investment properties		932,845	2,381,242
Change in fair value of derivative financial instruments		4,101	13,119
Borrowing costs	7	(69,322)	(120,809)
Profit before taxation and transactions with unitholders	8	**1,199,903**	**2,565,729**
Income tax expense	9	(54,522)	(41,316)
Profit for the period, before transactions with unitholders		**1,145,381**	**2,524,413**
Distributions to unitholders		(268,327)	(214,805)
Profit for the period, after transactions with unitholders		**877,054**	**2,309,608**
Other comprehensive income			
Change in fair value of derivative financial instruments under cash flow hedge		(17,137)	(52,592)
Total comprehensive income for the period		**859,917**	**2,257,016**
Income available for distribution to unitholders		**268,327**	**214,805**
Basic earnings per unit (HK cents)	10	67.72	150.62

Distribution Statement

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Profit for the period, before transactions with unitholders		**1,145,381**	**2,524,413**
Adjustments:			
Manager's base fee		28,097	21,572
Acquisition fee		19,000	-
Change in fair value of investment properties		(932,845)	(2,381,242)
Change in fair value of derivative financial instruments		(4,101)	(13,119)
Front end fees		8,404	58,103
Foreign currency exchange loss/(gain)		11	(100)
Other non-tax deductible trust expenses		4,380	5,178
Income available for distribution	(i)	**268,327**	**214,805**
Distribution per unit (HK cents)	(ii)	**15.82**	**12.80**

Notes:

(i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the REIT Code issued by the SFC.

(ii) The distribution per unit of 15.82 HK cents for the six months ended 30 June 2012 (six months ended 30 June 2011: 12.80 HK cents) is calculated based on the income available for distribution for the period of HK$268.3 million (six months ended 30 June 2011: HK$214.8 million) over 1,695,337,503 units (30 June 2011: 1,677,297,276 units), representing issued units as at 30 June 2012 of 1,692,187,125 units (30 June 2011: 1,674,182,145 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager’s base fee for its service in the second quarter of 2012 of 3,150,378 units (second quarter of 2011: 3,115,131 units).

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current asset			
Investment properties	11	19,268,000	16,388,000
Current assets			
Trade and other receivables	12	52,212	49,809
Bank balances and cash		664,975	881,721
Total current assets		717,187	931,530
Total assets		19,985,187	17,319,530
Non-current liabilities			
Derivative financial instruments		137,855	124,819
Borrowings	13	3,869,035	2,794,231
Deferred tax liabilities		179,762	170,067
Total non-current liabilities		4,186,652	3,089,117
Current liabilities			
Trade and other payables	14	381,335	347,940
Borrowings	13	960,000	420,000
Distribution payable		268,327	227,478
Provision for taxation		54,089	7,225
Total current liabilities		1,663,751	1,002,643
Total liabilities, excluding net assets attributable to unitholders		5,850,403	4,091,760
Net assets attributable to unitholders		**14,134,784**	**13,227,770**
Units in issue and to be issued ('000)	15	**1,695,337**	**1,684,018**
Net asset value per unit attributable to unitholders (HK$)	16	**8.34**	**7.85**

Notes

(1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended) between ARA Asset Management (Fortune) Limited, as the Manager of Fortune REIT, and HSBC Institutional Trust Services (Singapore) Limited, as the Trustee of Fortune REIT. Fortune REIT was listed on SGX-ST and SEHK on 12 August 2003 and 20 April 2010, respectively.

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

(2) Basis of preparation

The condensed consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Fortune REIT.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK and with International Accounting Standard 34 "Interim Financial Reporting" and the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the SFC.

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

(3) Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in these condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011 except as described below.

In the current period, the Group has applied the following amendments to International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The adoption of these amendments had no material impact on disclosure of the Group for the current accounting period.

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

Amendments to IFRS	Annual Improvements to IFRSs 2009 – 2011 Cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[2]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

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

Key requirements of IFRS 9 are described as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Revenue

	Six months ended 30 June	
	2012	*2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Base rental	389,716	318,877
Charge-out collections	101,482	86,996
Short term rental	45,051	40,507
Other income	1,132	457
	537,381	446,837

(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 (30 June 2011: 14) properties as at 30 June 2012 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(6) Trust Expenses

	Six months ended 30 June	
	2012	*2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Trustee's fee	3,164	2,377
Acquisition fee	19,000	-
Others	3,172	4,936
	25,336	7,313

(7) Borrowing costs

	Six months ended 30 June	
	2012	*2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interest expense on		
- term loans	28,109	25,432
- revolving loan	4,975	177
Equalisation of interest expense through cash flow hedge	27,073	21,857
Commitment fee	761	15,240
Front end fees		
- amortisation	8,404	7,485
- written off upon early redemption of term loan	-	50,618
	69,322	120,809

(8) Profit before taxation and transactions with unitholders

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

	Six months ended 30 June	
	2012	*2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Audit fees	1,447	1,298
Fees to internal auditor	165	171
Valuation fees (paid to principal valuer)	239	227
Bank charges	247	179

(9) Income tax expense

	Six months ended 30 June	
	2012	*2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax:		
- Hong Kong	44,516	34,493
- Singapore	311	241
	44,827	34,734
Deferred taxation	9,695	6,582
	54,522	41,316

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2011: 16.5%) for the period. Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (six months ended 30 June 2011: 17%) for the period.

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation and tax losses using the applicable rate of 16.5%. The Manager expects to recover the carrying amount of investment properties through sale. Hence, deferred tax is determined by reference to tax consequence following disposal of the properties.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK$1,145.4 million (six months ended 30 June 2011: HK$2,524.4 million) by the weighted average of 1,691,456,932 (six months ended 30 June 2011: 1,676,058,306) units outstanding during the period.

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

(11) Investment properties

	30 June 2012	*31 December 2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Fair value at beginning of the period/year	16,388,000	13,300,000
During the period/year:		
Acquisition of investment properties	1,900,000	-
Stamp duty incurred in relation to acquisition	9,500	-
Capital expenditure incurred	37,655	44,196
Change in fair value of investment properties	932,845	3,043,804
Fair value at end of the period/year	19,268,000	16,388,000

(12) Trade and other receivables

	30 June 2012	*31 December 2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Trade receivables	26,431	25,337
Other receivables and prepayments		
Security deposits	21,712	17,456
Other receivables	3,485	6,114
Prepayments	584	902
	25,781	24,472
	52,212	49,809

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

	30 June 2012	*31 December 2011*
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
1 - 30 days	26,361	25,251
31 - 90 days	47	43
Over 90 days	23	43
	26,431	25,337

(13) Borrowings

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Secured term loans	3,930,000	2,830,000
Secured revolving loans	960,000	420,000
Less: unamortised front end fees	(60,965)	(35,769)
	4,829,035	3,214,231
Carrying amount repayable:		
On demand or within one year	960,000	420,000
More than two years, but not more than five years	3,869,035	2,794,231
	4,829,035	3,214,231
Less: Amount due within one year shown under current liabilities	(960,000)	(420,000)
	3,869,035	2,794,231

(14) Trade and other payables

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Trade payables		
Tenants' deposits		
- Outside parties	260,123	229,797
- Related parties	7,062	5,398
Rental received in advance – Outside parties	9,110	12,435
	276,295	247,630
Other payables		
Trustee's fee	1,625	938
Other expenses		
- Outside parties	44,705	44,204
- Related parties	45,185	35,147
- Manager	4,071	3,365
Interest payable	5,836	1,818
Others	3,618	14,838
	105,040	100,310
	381,335	347,940

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$155.0 million (31 December 2011: HK$145.3 million).

(15) Units in issue and to be issued

	Number of units '000	*HK$'000*
Balance as at 1 January 2011	1,671,600	6,345,586
Issue of new units during the year:		
As payment of Manager's base fee	9,096	33,435
Balance in issue as at 31 December 2011	1,680,696	6,379,021
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2011	3,322	12,392
Balance as at 1 January 2012	1,684,018	6,391,413
Issue of new units during the period:		
As payment of acquisition fee for the acquisition of Belvedere Square and Provident Square	4,809	19,000
As payment of Manager's base fee for the period from 1 January to 31 March 2012	3,360	13,686
Balance in issue as at 30 June 2012	1,692,187	6,424,099
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2012	3,150	14,411
Balance as at 30 June 2012	1,695,337	6,438,510

(16) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK$14,134.8 million (31 December 2011: HK$13,227.8 million) and the total number of 1,695,337,503 (31 December 2011: 1,684,017,665) units in issue or to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 30 June 2012, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK$946.6 million (31 December 2011: HK$71.1 million).

As at 30 June 2012, the Group's total assets less current liabilities amounted to HK$18,321.4 million (31 December 2011: HK$16,316.9 million).