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Fortune Real Estate Investment Trust

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

(Stock Code: 778)

Managed by



ARA Asset Management (Fortune) Limited

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015 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 17 retail properties in Hong Kong, comprising approximately 3.18 million square feet ("Sq.ft.") of retail space and 2,713 car parking lots. The retail properties are Fortune City One, Fortune Kingswood, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Laguna Plaza, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi 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 is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2015 (the "Reporting Period") as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2015	Six months ended 30 June 2014	% change
Revenue (HK\$ million)	922.6	813.5	+13.4%
Net property income (HK\$ million)	654.4	581.0	+12.6%
Cost-to-revenue ratio	26.9%	26.3%	+0.6%
Income available for distribution (HK\$ million)	440.3	390.5	+12.8%
Distribution per unit ("DPU") (HK cents)	23.38	20.88	+12.0%
	As at 30 Jun 2015	As at 31 Dec 2014	% change
Net asset value per unit (HK\$)	12.49	11.93	+4.7%
Property valuation (HK\$ million)	35,238	32,720	+7.7%
Gearing ratio / Aggregate leverage ¹	30.6%	29.4%	+1.2%

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 30 June 2015, there was no deferred payment.

DISTRIBUTION

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

FINANCIAL REVIEW

Fortune REIT's financial performance continued to perform well and record steady growth during the first half of 2015.

For the Reporting Period, Fortune REIT's revenue and net property income went up by 13.4% and 12.6% year-on-year to HK\$922.6 million and HK\$654.4 million respectively. The growth was mainly attributed to a solid rental reversion of 22.1% across the portfolio as well as the additional income contributions from Laguna Plaza acquired in January 2015.

Borrowing costs (excluding non-tax deductible front end fees) were HK\$114.8 million for the Reporting Period. This represents an increase of 6.3% compared with the first half of 2014. The rise in borrowing cost was a result from the drawdown of additional loan facilities in January 2015 to finance the acquisition of Laguna Plaza.

Income available for distribution for the Reporting Period amounted to HK\$440.3 million, representing a year-on-year increase of 12.8%. DPU for the Reporting Period was 23.38 Hong Kong cents, which is 12.0% higher than the DPU of 20.88 Hong Kong cents for the corresponding period in 2014. This represents an annualized distribution yield of 6.0% based on the unit price of HK\$7.795, the average of the two closing unit prices in Singapore and Hong Kong as at 30 June 2015.

The interim DPU of 23.38 Hong Kong cents will be paid on 28 August 2015 to Unitholders registered in the registers of Unitholders of Fortune REIT as at 13 August 2015.

TWO ACCRETIVE TRANSACTIONS TO CREATE UNITHOLDER VALUE

During the Reporting Period, Fortune REIT completed the acquisition of Laguna Plaza, for HK\$1,918.5 million at 4.7% net property yield, as well as the disposal of Nob Hill Square, for HK\$648.0 million at 2.9% net property yield. Laguna Plaza, which contributed additional income to Fortune REIT during the Reporting Period, was Fortune REIT's first-ever acquisition from an independent third party. Nob Hill Square, divested at a premium of 48% over book value, was the first asset disposal since Fortune REIT's listing in 2003. The two transactions were significant milestones for Fortune REIT and successfully enhanced value to our Unitholders.

CAPITAL MANAGEMENT

During the Reporting Period, Fortune REIT entered into additional loan facilities, comprising a HK\$1,200.0 million 5-year term loan and a HK\$400.0 million 2-year revolving credit facility, to finance the acquisition of Laguna Plaza in January 2015.

In addition, upon the completion of the disposal of Nob Hill Square in April 2015, HK\$638.0 million was used for the repayment of existing loan facilities. With the lower subsequent gearing, Fortune REIT now has greater financial flexibility to pursue better-yielding opportunities as they arise.

As at 30 June 2015, the total committed loan facilities amounted to HK\$11,540.0 million. Fortune REIT closed the Reporting Period with a gearing ratio and an aggregate leverage of 30.6% (31 December 2014: 29.4%), a term of 2.2 years of weighted average term to maturity of debt, and an average all-in cost of debt of 2.04% (31 December 2014: 2.17%). Fortune REIT's gross liabilities as a percentage of gross assets increase to 35.0% as at 30 June 2015 (31 December 2014: 33.4%). The net current liabilities as at 30 June 2015 were HK\$4,115.2 million, mainly comprised of (i) a HK\$3,114.5 million 5-year loan facilities, which was due to mature within the next twelve months in April 2016; and (ii) revolving credit facilities of HK\$677.0 million, which has an option to roll over to their maturities.

Fortune REIT had obtained both secured and unsecured facilities. The former facilities are secured over Fortune REIT's 15 investment properties, which carried an aggregate fair value of HK\$32,777.0 million as at 30 June 2015. The Trustee has provided a guarantee for all of the facilities.

As at 30 June 2015, the interest cost for approximately 49% (31 December 2014: 55%) of Fortune REIT's outstanding debt has been hedged through interest rate swaps and caps. The Manager will continue to closely monitor interest rate movements and consider putting in place additional hedging arrangements.

Net asset value per unit amounted to HK\$12.49 as at 30 June 2015, up 4.7% from HK\$11.93 reported as at the end of 2014, mainly as a result of the increase in the valuation of investment properties.

PORTFOLIO VALUATION

The valuation of Fortune REIT's 17 retail properties was appraised at HK\$35,238.0 million by Savills Valuation and Professional Services Limited ("Savills"), an independent valuer, as at 30 June 2015. This represents a 7.7% increase from the valuation of HK\$32,720.0 million as at 31 December 2014, which was contributed by the improvement in asset performance and the addition of Laguna Plaza, offset by the disposal of Nob Hill Square. The higher valuation has resulted in a revaluation gain of HK\$992.0 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2015, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.18 million sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	7,348	99.6%	653
Fortune Kingswood	665,244	6,783	99.9%	622
Ma On Shan Plaza	310,084	5,057	99.3%	290
Metro Town	180,822	3,131	99.9%	74
Fortune Metropolis	332,168	2,369	98.1%	179
Laguna Plaza	163,203	2,100	97.2%	150
Belvedere Square	276,862	1,978	81.5%	329
Waldorf Avenue	80,842	1,594	100.0%	73
Caribbean Square	63,018	963	100.0%	117
Provident Square	180,238	945	90.5%	N.A
Jubilee Square	170,616	867	99.3%	97
Smartland	123,544	676	99.8%	67
Tsing Yi Square	78,836	591	100.0%	27
Centre de Laguna	43,000	270	99.4%	N.A
Hampton Loft	74,734	265	100.0%	35
Lido Avenue	9,836	186	100.0%	N.A
Rhine Avenue	14,604	115	100.0%	N.A
Total / Overall average	3,182,120	35,238	97.3%	2,713

OPERATIONS REVIEW

The performance of Fortune REIT's retail portfolio remains resilient despite a slowdown in the overall retail sales in Hong Kong. Portfolio occupancy was at 97.3% as at 30 June 2015 (30 June 2014: 99.1%).

A strong rental reversion of 22.1% was recorded for renewals during the first half of 2015. The portfolio passing rent stood at HK\$38.4 per sq.ft., up by 9.5% year-on-year for the existing portfolio excluding Laguna Plaza and Nob Hill Square.

Operating expenses (excluding the Manager's performance fee) increased to HK\$247.9 million, 15.7% higher on a year-on-year basis. This is mainly attributed to the additional expenses from Laguna Plaza. Meanwhile, the cost-to-revenue ratio was 26.9% (first half of 2014: 26.3%)

ASSET ENHANCEMENT INITIATIVES

The asset enhancement initiatives (“AEIs”) at Belvedere Square has progressed well during the Reporting Period. The first phase of the renovation has been completed and the second phase has commenced in March 2015. Approximately 80,000 sq.ft. has been closed down during the second phase of the AEIs which is expected to be completed in phases by the end of 2015. The total capital expenditure for the project is approximately HK\$80 million with a target return on investment of 15%.

OUTLOOK

Hong Kong’s economy recorded moderate growth in the first quarter of 2015 with gross domestic product up by 2.1% from a year earlier. Private consumption continued to grow and registered an increase of 3.5% in the first quarter of 2015 while unemployment rate remained low at 3.2% in March to May 2015. Although total retail sales decreased by 1.8% in the first five months of 2015 over the same period last year, a solid employment trend continued to provide support to local consumption.

The Manager remains mindful of the economic uncertainties associated with factors such as the changing pattern of tourist spending and the uncertain external environment. These factors are compounded by the prospects of slower domestic demand and the anticipation of the potential interest rate hikes. Nevertheless, Fortune REIT’s portfolio of private housing estate retail properties, which cater mainly to day-to-day shopping needs, tends to maintain a more resilient performance when compared to the overall market and economic conditions.

As there could be continuing pressure in the coming year on certain costs such as rising wages and electricity tariffs, inflation and other external factors, the Manager will closely monitor the operating expenses. Cost containment measures such as implementing energy-saving in operations and facilities will continue to be adopted in order to mitigate the impact from cost inflation.

Looking ahead, the Manager is committed to drive revenue growth by implementing effective leasing and tenant repositioning strategy as well as asset enhancement initiatives. Despite the disposal of Nob Hill Square in April 2015, the additional income from Laguna Plaza should continue to contribute further revenue growth for Fortune REIT.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2015, the total number of issued units of Fortune REIT was 1,879,418,796. As compared with the position as at 31 December 2014, a total of 6,372,502 new units were issued during the Reporting Period in the following manner:

- On 2 January 2015, 3,243,664 new units were issued to the Manager at the price of HK\$7.6277 per unit (being ascribed in the Trust Deed) as payment in full of the Manager’s base fee of approximately HK\$24.7 million payable by Fortune REIT for the period from 1 October 2014 to 31 December 2014.
- On 2 April 2015, 3,128,838 new units were issued to the Manager at the price of HK\$8.1893 per unit (being ascribed in the Trust Deed) as payment in full of the Manager’s base fee of approximately HK\$25.6 million payable by Fortune REIT for the period from 1 January 2015 to 31 March 2015.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 348,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Hong Kong register of unitholders will be closed on Thursday, 13 August 2015, during which day no transfer of units on the Hong Kong register of unitholders will be effected. 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 Wednesday, 12 August 2015. The payment of interim distribution will be made to unitholders on Friday, 28 August 2015.

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. 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 2015.

ISSUANCE OF 2015 INTERIM REPORT

The 2015 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 2015.

By order of the board of directors of
ARA Asset Management (Fortune) Limited
(in its capacity as manager of Fortune Real Estate Investment Trust)
Chiu Yu, Justina
Chief Executive Officer

Hong Kong, 27 July 2015

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

		<i>Six months ended 30 June</i>	
		<i>2015</i>	<i>2014</i>
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	5	922,592	813,455
Property operating expenses		<u>(268,229)</u>	<u>(232,406)</u>
Net property income		654,363	581,049
Manager's base fee		(51,979)	(44,799)
Foreign currency exchange (loss)/gain		(126)	46
Interest income		2,406	5,160
Trust expenses	6	(32,777)	(7,280)
Change in fair value of investment properties		992,020	1,512,690
Change in fair value of derivative financial instruments		(36,511)	(21,200)
Gain on disposal of a property company		218,598	-
Borrowing costs	7	<u>(128,859)</u>	<u>(133,550)</u>
Profit before taxation and transactions with unitholders	8	1,617,135	1,892,116
Income tax expense	9	<u>(98,120)</u>	<u>(85,626)</u>
Profit for the period, before transactions with unitholders		1,519,015	1,806,490
Distributions to unitholders		<u>(440,258)</u>	<u>(390,454)</u>
Profit for the period, after transactions with unitholders		1,078,757	1,416,036
Other comprehensive income - item that may be reclassified subsequently to profit or loss			
Net gain on derivative financial instruments under cash flow hedge		<u>11,131</u>	<u>9,499</u>
Total comprehensive income for the period		<u>1,089,888</u>	<u>1,425,535</u>
Income available for distribution to unitholders		<u>440,258</u>	<u>390,454</u>
Basic earnings per unit (HK cents)	10	<u>80.80</u>	<u>96.77</u>

Distribution Statement

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015	2014
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit for the period, before transactions with unitholders		1,519,015	1,806,490
Adjustments:			
Manager's base fee		51,979	44,799
Acquisition fee		19,185	-
Change in fair value of investment properties		(992,020)	(1,512,690)
Change in fair value of derivative financial instruments		36,511	21,200
Gain on disposal of a property company		(218,598)	-
Non tax deductible front end fees		14,011	25,494
Foreign currency exchange loss/(gain)		126	(46)
Other non-tax deductible trust expenses		10,049	5,207
Income available for distribution	(i)	440,258	390,454
Distribution per unit (HK cents)	(ii)	23.38	20.88

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 23.38 HK cents for the six months ended 30 June 2015 (six months ended 30 June 2014: 20.88 HK cents) is calculated based on the income available for distribution for the period of HK\$440.3 million (six months ended 30 June 2014: HK\$390.5 million) over 1,882,805,728 units (30 June 2014: 1,869,688,995 units), representing issued units as at 30 June 2015 of 1,879,418,796 units (30 June 2014: 1,866,273,811 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 2015 of 3,386,932 units (second quarter of 2014: 3,415,184 units).

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	35,238,000	32,720,000
Derivative financial instruments		9,073	32,306
Deposit for acquisition of property companies		-	95,925
Total non-current assets		35,247,073	32,848,231
Current assets			
Trade and other receivables	12	71,251	60,853
Bank balances and cash		836,165	688,407
Total current assets		907,416	749,260
Total assets		36,154,489	33,597,491
Non-current liabilities			
Derivative financial instruments		18,732	33,617
Borrowings	13	7,216,718	8,881,110
Deferred tax liabilities		378,987	378,235
Total non-current liabilities		7,614,437	9,292,962
Current liabilities			
Trade and other payables	14	682,381	588,627
Borrowings	13	3,791,539	940,000
Derivative financial instruments		17,032	-
Distribution payable		440,258	390,316
Provision for taxation		91,438	10,049
Total current liabilities		5,022,648	1,928,992
Total liabilities, excluding net assets attributable to unitholders		12,637,085	11,221,954
Net assets attributable to unitholders		23,517,404	22,375,537
Units in issue and to be issued ('000)	15	1,882,806	1,876,290
Net asset value per unit (HK\$) attributable to unitholders	16	12.49	11.93

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 Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

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 2014 except as described below.

In the current period, the Group has applied the following amendments to the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions

The application of the amendments to the IFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

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

Amendments to IFRSs IFRS 9	Annual Improvements to IFRSs 2012-2014 Cycle ¹ Financial Instruments ²
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests and Joint Operations ¹
IFRS 14	Regulatory Deferral Accounts ³
IFRS 15	Revenue from Contracts with Customers ⁴
Amendments to IAS 1	Disclosure Initiative ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ¹
Amendments to IAS 27	Equity Method in Separate Financial Statements ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for first annual IFRS financial statements beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as

fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Manager will assess the impact of the application of IFRS 9. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 9 until the Group performs a detailed review.

(4) Segmental reporting

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

The Group owns 17 (31 December 2014: 17) properties as at 30 June 2015 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group’s accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Base rental	667,385	584,874
Charge-out collections	166,776	148,602
Other rental	87,125	78,927
Other income	1,306	1,052
	922,592	813,455
	922,592	813,455

(6) Trust Expenses

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Trustee's fee	6,003	5,136
Acquisition fee	19,185	-
Expenses for acquisition	4,046	-
Other charges	3,543	2,144
	<hr/>	<hr/>
	32,777	7,280
	<hr/>	<hr/>

(7) Borrowing costs

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expense on		
- term loans	74,835	70,489
- revolving loans	10,955	5,396
Equalisation of interest expense through cash flow hedge	23,825	30,413
Commitment fee	719	803
Front end fees		
- amortisation	17,081	16,673
- written off upon early repayment of term loans	1,444	9,776
	<hr/>	<hr/>
	128,859	133,550
	<hr/>	<hr/>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,604	1,352
Fees to internal auditor	165	165
Valuation fees (paid to principal valuer)	304	308
	<hr/>	<hr/>

(9) Income tax expense

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax:		
- Hong Kong	82,231	69,881
- Singapore	50	316
	<hr/>	<hr/>
	82,281	70,197
Deferred taxation	15,839	15,429
	<hr/>	<hr/>
	98,120	85,626
	<hr/>	<hr/>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2014: 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 2014: 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 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.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$1,519.0 million (six months ended 30 June 2014: HK\$1,806.5 million) by the weighted average of 1,880,036,064 units (six months ended 30 June 2014: 1,866,799,364 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

	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Fair value		
At beginning of the period/year	32,720,000	29,338,000
During the period/year:		
Acquisition of investment properties	1,912,254	-
Capital expenditure incurred in upgrading investment properties	52,215	60,221
Disposal of an investment property	(438,489)	-
Change in fair value of investment properties	992,020	3,321,779
At end of the period/year	<hr/>	<hr/>
	35,238,000	32,720,000
	<hr/>	<hr/>

(12) Trade and other receivables

	<i>30 June 2015 HK\$'000 (Unaudited)</i>	<i>31 December 2014 HK\$'000 (Audited)</i>
Trade receivables	42,371	32,390
Other receivables and prepayments		
Security deposits	23,796	23,846
Other receivables	4,351	2,917
Prepayments	733	1,700
	<u>28,880</u>	<u>28,463</u>
	<u>71,251</u>	<u>60,853</u>

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

	<i>30 June 2015 HK\$'000 (Unaudited)</i>	<i>31 December 2014 HK\$'000 (Audited)</i>
0 - 30 days	40,842	31,495
31 - 90 days	1,491	885
Over 90 days	38	10
	<u>42,371</u>	<u>32,390</u>

(13) Borrowings

	<i>30 June 2015 HK\$'000 (Unaudited)</i>	<i>31 December 2014 HK\$'000 (Audited)</i>
Secured term loans	7,851,313	7,334,253
Unsecured term loans	1,618,700	1,618,700
Secured revolving loans	1,430,000	940,000
Unsecured revolving loans	180,000	-
Less: unamortised front end fees	<u>(71,756)</u>	<u>(71,843)</u>
	<u>11,008,257</u>	<u>9,821,110</u>
Carrying amount repayable:		
On demand or within one year	3,791,539	940,000
More than one year, but not more than two years	3,932,968	2,817,265
More than two years, but not more than five years	<u>3,283,750</u>	<u>6,063,845</u>
	11,008,257	9,821,110
Less: Amount due within one year shown under current liabilities	<u>(3,791,539)</u>	<u>(940,000)</u>
	<u>7,216,718</u>	<u>8,881,110</u>

(14) Trade and other payables

	<i>30 June 2015 HK\$'000 (Unaudited)</i>	<i>31 December 2014 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits		
- Outside parties	450,864	410,128
- Related parties	18,897	10,500
Rental received in advance		
- Outside parties	31,628	15,995
	<u>501,389</u>	<u>436,623</u>
Other payables		
Trustee's fee	2,030	1,943
Other expenses		
- Outside parties	88,297	69,599
- Related parties	77,271	68,173
- Manager	6,785	6,011
Interest payable	3,921	4,079
Others	2,688	2,199
	<u>180,992</u>	<u>152,004</u>
	<u>682,381</u>	<u>588,627</u>

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

The tenants' deposits to be settled after twelve months from the reporting period based on lease term amounted to HK\$296.6 million (31 December 2014: HK\$262.3 million) as at 30 June 2015.

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2014	1,862,534	7,572,356
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 30 September 2014	<u>10,512</u>	<u>68,149</u>
Balance in issue as at 31 December 2014	1,873,046	7,640,505
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 October to 31 December 2014	<u>3,244</u>	<u>24,742</u>
Balance in issue as at 1 January 2015	1,876,290	7,665,247
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2015	<u>3,129</u>	<u>25,623</u>
Balance in issue as at 30 June 2015	1,879,419	7,690,870
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2015	<u>3,387</u>	<u>26,356</u>
Balance in issue as at 30 June 2015	<u>1,882,806</u>	<u>7,717,226</u>

(16) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$23,517.4 million (31 December 2014: HK\$22,375.5 million) and the total number of 1,882,805,728 units (31 December 2014: 1,876,289,958) 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 2015, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$4,115.2 million (31 December 2014: HK\$1,179.7 million).

As at 30 June 2015, the Group's total assets less current liabilities amounted to HK\$31,131.8 million (31 December 2014: HK\$31,668.5 million).