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## **Fortune Real Estate Investment Trust**

*(a collective investment scheme authorized under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*  
**(Stock Code: 778)**

**Managed by**



**ARA Asset Management (Fortune) Limited**

## **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 AND RECORD DATE FOR DISTRIBUTION ENTITLEMENT**

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 is primary listed on The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on Singapore Exchange Securities Trading Limited ("SGX-ST").

Fortune REIT holds a portfolio of 16 retail properties in Hong Kong, comprising approximately 3.0 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, 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 audited results of Fortune REIT for the year ended 31 December 2018 (the “Reporting Year” or “FY2018”) as follows:

## FINANCIAL HIGHLIGHTS

	Year ended 31 December 2018	Year ended 31 December 2017	% change
Revenue (HK\$ million)	<b>1,940.1</b>	1,935.4 <sup>[1]</sup>	+0.2%
Net property income (HK\$ million)	<b>1,471.8</b>	1,456.7	+1.0%
Cost-to-revenue ratio	<b>21.8%</b>	22.4% <sup>[1]</sup>	-0.6%
Income available for distribution (HK\$ million)	<b>986.2</b>	970.8	+1.6%
Distribution per unit (“DPU”) (HK cents)	<b>51.28</b>	50.78	+1.0%
	As at 31 December 2018	As at 31 December 2017	% change
Net asset value per unit (HK\$)	<b>16.61</b>	14.05	+18.2%
Property valuation (HK\$ million)	<b>42,000</b>	37,751 <sup>[3]</sup>	+11.3%
Gearing ratio / Aggregate leverage <sup>[2]</sup>	<b>20.9%</b>	27.4%	-6.5%

Notes:

1. “Revenue” and “Property operating expenses” have been reclassified to conform with the current year’s presentation.
2. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 31 December 2018, there was no deferred payment.
3. The amount excluded the valuation of Provident Square of HK\$1,061 million which was disposed on 28 February 2018.

## 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 continued to deliver steady results in FY2018, marking its 15th consecutive year of growth. Despite the divestment of Provident Square and Asset Enhancement Initiatives (“AEIs”) at Fortune Kingswood, revenue and net property income for FY2018 still reached a record high of HK\$1,940.1 million and HK\$1,471.8 million respectively. The growth is attributable to positive rental reversion from the retail portion as well as increased carpark income. On a like-for-like basis <sup>1</sup>, revenue and net property income increased by 3.9% and 4.5% year-on-year respectively.

<sup>1</sup> Like-for-like basis is calculated by excluding Provident Square (which was divested on 28 February 2018) and Fortune Kingswood (which was undergoing AEIs since June 2018) during the periods under analysis.

Total property operating expenses for FY2018 (excluding the Manager's performance fee) decreased by 2.5% year-on-year to HK\$422.6 million. In particular, utility expenses were reduced by 9.3% notwithstanding the increased electricity tariffs. With our disciplined cost control, cost-to-revenue ratio improved further to 21.8% (2017: 22.4%).

Income available for distribution for FY2018 was HK\$986.2 million, representing a year-on-year increase of 1.6%. The DPU for the Reporting Year was 51.28 HK cents, up by 1.0% year-on-year (2017: 50.78 HK cents). The FY2018 DPU represented a yield of 5.7% based on the closing unit price of HK\$8.99 in Hong Kong as at 31 December 2018.

Finance cost (excluding change in fair value of derivative financial instruments) decreased by 0.6% year-on-year to HK\$266.6 million despite the impact of a higher Hong Kong Inter-bank Offered Rate during the Reporting Year as the increase was mostly offset by interest savings resulted from certain loan repayments. The effective borrowing cost for the Reporting Year was 2.89% (2017: 2.47%) over a reduced amount of total debt.

### **Final Distribution**

The final DPU of 24.94 HK cents for the six months ended 31 December 2018 will be paid on 1 March 2019 to Unitholders on the registers of Unitholders of Fortune REIT as at 14 February 2019.

### **Strengthened Financial Position**

The disposal of Provident Square was completed on 28 February 2018. Out of the HK\$2.0 billion divestment proceeds, HK\$1.95 billion was used for debt repayment comprising HK\$1.1 billion upon completion and subsequently another HK\$850 million in July 2018. As a result, Fortune REIT's total committed loan facilities were reduced to HK\$9,205.1 million (2017: HK\$11,155.1 million) with no refinancing needs until 2020. The gearing ratio and aggregate leverage came down to 20.9% (2017: 27.4%) due to lower borrowing level and higher property valuation. Gross liability as a percentage of its gross assets decreased to 24.9% as at 31 December 2018 (2017: 32.1%).

Fortune REIT has obtained both secured and unsecured loan facilities. As 15 of its 16 investment properties are unencumbered, Fortune REIT possesses good financial flexibility. As at 31 December 2018, approximately 78% of total committed debts were unsecured. The only secured loan facility is secured over Ma On Shan Plaza which carried a fair value of HK\$6,144 million as at 31 December 2018. The Trustee has provided guarantees for all loan facilities.

As at 31 December 2018, available liquidity stood at HK\$1,242.9 million (31 December 2017: HK\$1,216.0 million), comprising committed but undrawn facilities of HK\$700.0 million (2017: HK\$700.0 million) and cash and deposits of HK\$542.9 million (2017: HK\$516.0 million). Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitments and working capital requirements.

As at 31 December 2018, interest cost for approximately 57% (2017: 60%) of Fortune REIT's outstanding debts was hedged through interest rate swaps and caps.

Net asset value per unit amounted to HK\$16.61 as at 31 December 2018, up 18.2% from HK\$14.05 at the end of 2017.

## Portfolio Valuation

Notwithstanding the divestment of Provident Square, Fortune REIT's portfolio valuation increased by 8.2% from HK\$38,812 million as at 31 December 2017 to HK\$42,000 million as at 31 December 2018. Knight Frank Petty Limited, the Principal Valuer, adopted the valuation methodology of income capitalisation approach and cross-referenced with direct comparison approach. As at 31 December 2018, the average capitalisation rate was at 4.28% (2017: 4.53%). The compression of the average capitalisation rate, coupled with improvement in the performance of the underlying assets, has lifted up portfolio valuation and resulted in a revaluation gain of HK\$4,187.6 million for the Reporting Year.

## PORTFOLIO HIGHLIGHTS

As at 31 December 2018, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 3.0 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	8,788	99.3%	653
Fortune Kingswood	665,244	8,261	88.4%	622
Ma On Shan Plaza	310,084	6,144	92.2%	290
Metro Town	180,822	3,926	99.2%	74
Fortune Metropolis	332,168	2,805	73.1%	179
Laguna Plaza	163,203	2,683	99.0%	150
Belvedere Square	276,862	2,670	99.8%	329
Waldorf Avenue	80,842	1,832	100.0%	73
Caribbean Square	63,018	1,295	100.0%	117
Jubilee Square	170,616	995	97.2%	97
Smartland	123,544	809	96.3%	67
Tsing Yi Square	78,836	804	100.0%	27
Centre de Laguna	43,000	339	100.0%	N.A
Hampton Loft	74,734	311	100.0%	35
Lido Avenue	9,836	208	100.0%	N.A
Rhine Avenue	14,604	130	100.0%	N.A
<b>Total / Overall average</b>	<b>3,001,882</b>	<b>42,000</b>	<b>93.1%</b>	<b>2,713</b>

## **BUSINESS REVIEW**

Hong Kong's economy remains in good health and the retail market continues to thrive in 2018, buoyed by a strong increase in tourist arrivals and positive consumer sentiment. We have taken advantage of the retail uptrend and carried out tenant repositioning and AElS to strengthen long term growth of our portfolio.

Portfolio performance continued to be satisfactory for 2018, with a healthy rental reversion of 12.7% for renewals for the Reporting Year. As Fortune Kingswood is undergoing major AElS, portfolio occupancy stood at 93.1% as at 31 December 2018 (2017: 98.1%). Tenant retention rate remained solid at 68% despite the ongoing AElS, reflecting Fortune Malls as tenants' preferred place for business.

The portfolio currently has a total of 1,299 tenants, of which the top 10 together contributed approximately 27.7% of the gross rental income and occupied approximately 18.3% of total GRA as at 31 December 2018. Tenants in the non-discretionary trades such as supermarkets, food and beverages as well as services and education accounted for approximately 69% of total GRA, underpinning Fortune REIT's long-term resilience through economic cycles. The Manager continues to focus on retaining quality tenants, securing early commitment to renewals before leases expire, as well as optimising the tenant mix at opportune times.

### **AElS at Fortune Kingswood has progressed well**

Asset enhancement forms part of our overall strategy to periodically upgrade our malls to drive sustainable rental growth. The HK\$150 million enhancement works at the West Block of Fortune Kingswood has commenced in June 2018 and aims to reinforce its position as the leading shopping mall in the neighbourhood by improving the overall layout and shopping ambience with an enriched food and beverages and retail offerings. The project has been progressing smoothly and is scheduled for completion in phases by end of 2019.

Meanwhile, we have been working on the plan to revitalise the East Block, making it a one-stop lifestyle and entertainment destination within the greater Yuen Long area.

## OUTLOOK

Hong Kong's economy grew solidly by 2.9% in the third quarter of 2018 over a year earlier but moderated from the 3.5% growth recorded in the second quarter. Domestic demand held firm while the labour market remained tight as the unemployment rate stayed unchanged at a 20-year low of 2.8%. On the back of resilient domestic spending and a strong resurgence of inbound tourists, Hong Kong retail sales recorded a growth of 9.7% in the first eleven months of 2018. We believe the favourable job and income conditions in Hong Kong will continue to support the business at Fortune Malls which predominantly focuses on non-discretionary retail. However, we are also mindful that weaker stock and housing markets as well as external headwinds such as the US-Mainland China trade conflict could undermine growth momentum.

The US Federal Reserve has hiked its benchmark interest rate four times in 2018. After the December FOMC meeting, the US Federal Reserve has signalled a more patient approach, stating that the upcoming interest rate policy would depend on the evolution of the outlook of the economy. As we remain prudent in capital management, we have lowered our borrowing level during the Reporting Year and have hedging in place for interest cost on 57% of outstanding debt to manage our exposure to interest rate volatility.

With a resilient portfolio of neighbourhood malls in Hong Kong and a successful track record spanning 15 years, Fortune REIT is well positioned to deliver consistent results and sustainable returns for our Unitholders. We will continue to strengthen our core competencies by executing a proactive leasing strategy, adding value to our malls through AEIs, seeking yield-accretive investment opportunities and maintaining a healthy capital structure.

## EMPLOYEES

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

## NEW UNITS ISSUED

As at 31 December 2018, the total number of issued units of Fortune REIT was 1,924,399,370. As compared with the position as at 31 December 2017, a total of 13,123,263 new units were issued during the Reporting Year in the following manner:

- On 2 January 2018, 3,072,278 new units were issued to the Manager at the price of HK\$9.5526 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.3 million payable by Fortune REIT for the period from 1 October 2017 to 31 December 2017.
- On 6 April 2018, 2,946,649 new units were issued to the Manager at the price of HK\$9.4770 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.9 million payable by Fortune REIT for the period from 1 January 2018 to 31 March 2018.
- On 9 November 2018, 7,104,336 new units were issued to the Manager at the price of HK\$8.6334 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$61.3 million payable by Fortune REIT for the period from 1 April 2018 to 30 September 2018.

## **REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Year, other than the disposal of 13,569,000 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.

Fortune REIT is a real estate investment trust primary listed on SEHK and secondary listed on SGX-ST. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong and Singapore, including the code provisions as set out in the Corporate Governance Code (the “CG Code”) of the Rules Governing the Listing of Securities on the SEHK (where applicable) and the Singapore Code of Corporate Governance 2012 (“Singapore Code”).

The Manager confirms 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 CG Code and the Singapore Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Year.

## **RECORD DATE FOR DISTRIBUTION ENTITLEMENT**

For the purpose of determining the distribution entitlement for the final distribution, the record date will be on Thursday, 14 February 2019. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with (a) the Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Thursday, 14 February 2019 or (b) the Singapore unit registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore unitholders) not later than 5:00 p.m. on Thursday, 14 February 2019. The payment of final distribution will be made to unitholders on Friday, 1 March 2019.

## **SINGAPORE INCOME TAX ON FORTUNE REIT DISTRIBUTION**

The final distribution is made out of Fortune REIT’s tax exempt income and taxable interest income. Singapore unitholders receiving distributions will not be assessable to Singapore income tax on the distributions received.

## REVIEW OF FINAL RESULTS

The final results of Fortune REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager.

## PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 31 December 2018.

## ISSUANCE OF ANNUAL REPORT 2018

The 2018 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2019.

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, 28 January 2019

*The Directors of the Manager as at the date of this announcement are Mr. Chui Sing Loi (alias Tsui Sing Loi) as Chairman and Independent Non-executive Director; Dr. Chiu Kwok Hung, Justin, Mr. Lim Hwee Chiang, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Chiu Yu, Justina as Executive Director; Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah as Independent Non-executive Directors.*

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated) (Note 19)
Revenue	5	1,940,106	1,935,440
Property operating expenses	6	<u>(422,616)</u>	<u>(433,618)</u>
<b>Net property income (before manager's performance fee)</b>		1,517,490	1,501,822
Manager's performance fee		<u>(45,711)</u>	<u>(45,076)</u>
<b>Net property income</b>		<b>1,471,779</b>	<b>1,456,746</b>
Manager's base fee		(121,019)	(112,654)
Foreign currency exchange (loss)/gain		(38)	397
Interest income		6,370	706
Trust expenses	7	(18,197)	(17,109)
Change in fair value of investment properties	12	4,187,648	2,391,549
Gain on disposal of a property company	12	941,060	-
Finance costs	8	<u>(255,612)</u>	<u>(299,298)</u>
<b>Profit before taxation and transactions with unitholders</b>	9	<b>6,211,991</b>	<b>3,420,337</b>
Income tax expense	10	<u>(221,224)</u>	<u>(219,347)</u>
<b>Profit for the year, before transactions with unitholders</b>		<b>5,990,767</b>	<b>3,200,990</b>
Distributions to unitholders		<u>(986,188)</u>	<u>(970,760)</u>
<b>Profit for the year, after transactions with unitholders and total comprehensive income for the year</b>		<b><u>5,004,579</u></b>	<b><u>2,230,230</u></b>
<b>Income available for distribution to unitholders</b>		<b><u>986,188</u></b>	<b><u>970,760</u></b>
Basic earnings per unit (HK cents)	11	<u>311.78</u>	<u>167.70</u>

# Distribution Statement

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>		<b>5,990,767</b>	<b>3,200,990</b>
<b>Adjustments:</b>			
Manager's base fee		121,019	112,654
Gain on disposal of a property company		(941,060)	-
Change in fair value of investment properties		(4,187,648)	(2,391,549)
Change in fair value of derivative financial instruments		(10,949)	31,210
Front end fees		-	4,852
Foreign currency exchange loss/(gain)		38	(397)
Other non-tax deductible trust expenses		14,021	13,000
<b>Income available for distribution</b>	(i)	<b>986,188</b>	<b>970,760</b>
<b>Distribution to unitholders</b>			
26.34 HK cents (2017: 25.53 HK cents) per unit for the six months ended 30 June	(ii)	505,181	487,324
24.94 HK cents (2017: 25.25 HK cents) per unit for the six months ended 31 December	(iii)	481,007	483,436
<b>Income available for distribution</b>		<b>986,188</b>	<b>970,760</b>
<b>Distribution per unit (HK cents)</b>		<b>51.28</b>	<b>50.78</b>

## 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 26.34 HK cents for the six months ended 30 June 2018 is calculated based on the income available for distribution for the period of HK\$505.2 million over issued units as at 30 June 2018 of 1,917,295,034 units. The distribution amounting to HK\$505.2 million for the six months ended 30 June 2018 was paid on 29 August 2018.

The distribution per unit of 25.53 HK cents for the six months ended 30 June 2017 was calculated based on the income available for distribution for the period of HK\$487.3 million over 1,908,173,581 units, represented issued units as at 30 June 2017 of 1,905,208,839 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 2017 of 2,964,742 units. The distribution amounted to HK\$487.3 million for the six months ended 30 June 2017 was paid on 29 August 2017.

- (iii) The distribution per unit of 24.94 HK cents for the six months ended 31 December 2018 (six months ended 31 December 2017: 25.25 HK cents) is calculated based on the income available for distribution for the period of HK\$481.0 million (six months ended 31 December 2017: HK\$483.4 million) over 1,927,905,503 units (31 December 2017: 1,914,348,385 units), representing issued units as at 31 December 2018 of 1,924,399,370 units (31 December 2017: 1,911,276,107 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the fourth quarter of 2018 of 3,506,133 units (fourth quarter of 2017: 3,072,278 units). The distribution amounting to HK\$481.0 million (six months ended 31 December 2017: HK\$483.4 million) will be paid on 1 March 2019 (six months ended 31 December 2017: 28 February 2018).

# Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	12	42,000,000	37,751,000
Derivative financial instruments		18,816	19,279
<b>Total non-current assets</b>		<b>42,018,816</b>	<b>37,770,279</b>
<b>Current assets</b>			
Trade and other receivables	13	64,459	266,958
Bank balances and cash		542,899	516,036
Derivative financial instruments		6,290	668
		613,648	783,662
Assets of a disposal company classified as held for sale		-	1,068,187
<b>Total current assets</b>		<b>613,648</b>	<b>1,851,849</b>
<b>Total assets</b>		<b>42,632,464</b>	<b>39,622,128</b>
<b>Non-current liabilities</b>			
Derivative financial instruments		-	5,790
Borrowings	14	8,459,456	9,286,423
Deferred tax liabilities		471,334	444,146
<b>Total non-current liabilities</b>		<b>8,930,790</b>	<b>9,736,359</b>
<b>Current liabilities</b>			
Trade and other payables	15	790,411	967,726
Borrowings	14	400,000	1,496,788
Distribution payable		481,007	483,436
Provision for taxation		16,891	11,324
		1,688,309	2,959,274
Liabilities directly associated with assets of a disposal company classified as held for sale		-	38,728
<b>Total current liabilities</b>		<b>1,688,309</b>	<b>2,998,002</b>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>10,619,099</b>	<b>12,734,361</b>
<b>Net assets attributable to unitholders</b>		<b>32,013,365</b>	<b>26,887,767</b>
<b>Units in issue and to be issued ('000)</b>	16	<b>1,927,905</b>	<b>1,914,348</b>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	17	<b>16.61</b>	<b>14.05</b>

## 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 primary listed on SEHK and secondary listed on SGX-ST.

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

### (2) Basis of preparation

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board (the "IASB"), and are drawn up in accordance with the relevant provisions of the Trust Deed, the relevant requirements of the Code on Collective Investments Schemes issued by the Monetary Authority of Singapore and REIT Code issued by SFC.

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

### (3) Principal Accounting Policies

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

The accounting policies used in these consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except as described below.

#### *New and amendments to IFRSs that are mandatorily effective for the current year*

The Group has applied the following new and amendments to IFRSs issued by the IASB for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to IAS 40	Transfers of Investment Property

The application of the new and amendments to IFRSs in the current year 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 consolidated financial statements.

### **IFRS 9 *Financial Instruments and the related amendments***

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, is recognised in the opening retained profits and other components of equity, without restating comparative information.

The Manager reviewed and assessed the Group's financial assets and liabilities as at 1 January 2018 and 31 December 2018 based on the facts and circumstances that existed at that dates. There was no material impact on initial application of IFRS 9 as all financial assets and financial liabilities continue to be measured on the same bases as measured under IAS 39 *Financial Instruments: Recognition and Measurement* and no impairment was recognised at the initial date of application, 1 January 2018.

### **IFRS 15 *Revenue from Contracts with Customers***

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. IFRS 15 applies to all contracts with customers except for leases which are within the scope of IAS 17 *Leases*.

The Group currently invests in a portfolio of retail shopping malls in Hong Kong for earning stable rental income under operating leases. It receives leasing rental income, charge-out collections and other income from tenants. IFRS 15 does not apply to the leasing component of base rental and other rental which are under the scope of IAS 17. Charge-out collections (e.g. management fee income and air conditioning income) are non-lease components which fall within IFRS 15. Each of these incomes has a stand-alone selling price for the services which are observable under the lease contracts and they are recognised as revenue only when the performance obligation is satisfied.

*New and amendments to IFRSs in issue but not yet effective*

The Group has not early applied the following new and amendments to IFRSs that have been issued and are pertinent to its operations but not yet effective:

IFRS 16	Leases <sup>1</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to IAS 1 and IAS 8	Definition of Material <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020

The Manager anticipates that the rest of the new and amendments to IFRSs that are not yet effective will not have any material impact on the Group's consolidated financial statements when they become effective.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 and the related interpretations when it becomes effective.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

**(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 16 (2017: 17) properties as at 31 December 2018 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 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 property or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

**(5) Revenue**

	2018 HK\$'000	2017 HK\$'000 (Restated) (Note 19)
Base rental	1,508,126	1,480,874
Other rental	186,565	196,361
Other income	1,527	3,994
Total rental income	1,696,218	1,681,229
Charge-out collections (note)	243,888	254,211
	<u>1,940,106</u>	<u>1,935,440</u>

note:

Revenue from contracts with customers represented charge-out collections, which consist of payments in respect of the operation of the properties in Hong Kong which are payable by the tenants and licensees, are recognised over time as income when the services and facilities are provided. According to the contracts with customers, the Group is entitled to bill a fixed amount in advance for each month according to the terms of the relevant lease.

**(6) Property operating expenses**

	2018 HK\$'000	2017 HK\$'000 (Restated) (Note 19)
Advertising and promotion	16,214	16,634
Building management expenses	218,218	218,921
Carpark operating expenses	29,693	28,092
Government rents and rates	13,390	12,602
Leasing commission and marketing services fee	29,389	36,204
Legal and other professional fees	6,521	8,730
Property management fee	47,512	47,277
Utilities	46,561	51,350
Others	15,118	13,808
	<u>422,616</u>	<u>433,618</u>

**(7) Trust Expenses**

	2018 HK\$'000	2017 HK\$'000
Trustee's fee	13,930	13,000
Other charges	4,267	4,109
	<u>18,197</u>	<u>17,109</u>

**(8) Finance costs**

	2018 HK\$'000	2017 HK\$'000 (Restated) (Note 19)
Interest expenses on bank borrowings	227,884	184,576
Front end fees	26,245	31,544
Commitment fee	1,727	3,292
Interest rate swaps and caps expenses realised	10,705	48,676
	<u>266,561</u>	<u>268,088</u>
Change in fair value of derivative financial instruments	(10,949)	31,210
	<u>255,612</u>	<u>299,298</u>

**(9) Profit before taxation and transactions with unitholders**

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

	2018 HK\$'000	2017 HK\$'000
Audit fee	1,689	1,845
Fee to internal auditor	350	330
Valuation fees (paid to principal valuer)	524	640
	<u>2,563</u>	<u>2,815</u>

**(10) Income tax expense**

	2018 HK\$'000	2017 HK\$'000
Current tax:		
- Hong Kong	195,352	189,036
- Singapore	26	-
- Over provision in prior year	(1,830)	(431)
	<u>193,548</u>	<u>188,605</u>
Deferred taxation:		
- Current year	26,471	30,711
- Under provision in prior year	1,205	31
	<u>27,676</u>	<u>30,742</u>
	<u>221,224</u>	<u>219,347</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong profits tax at 16.5% (2017: 16.5%).

Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2017: 17%).

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation and tax losses using the applicable rate of 16.5%. The investment properties are not held under a business model whose objective is to consume substantially of the economic benefits embodied in the investment properties over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

**(11) Earnings per unit**

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$5,990.7 million (2017: HK\$3,201.0 million) by the weighted average of 1,921,476,481 (2017: 1,908,732,338) units outstanding during the year.

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

**(12) Investment properties**

	2018 HK\$'000	2017 HK\$'000
<b>Fair Value</b>		
At beginning of the year	37,751,000	36,368,000
During the year:		
Capital expenditure incurred in upgrading investment properties	61,352	52,451
Transfer to assets of a disposal company classified as held for sale (note)	-	(1,061,000)
Change in fair value of investment properties	4,187,648	2,391,549
At end of the year	<u>42,000,000</u>	<u>37,751,000</u>

note:

On 28 February 2018, Fortune REIT completed the disposal of Provident Square to an independent third party through disposal of the entire equity interest in Maulden Investments Limited for a consideration of HK\$2,000.0 million minus adjustment on the net liabilities of HK\$12.4 million as at completion date of disposal.

The sales proceeds, net of expenses, have been used to repay part of the banking facilities. The disposal results in a gain of approximately HK\$941.1 million.

Analysis of assets and liabilities over which control was lost:

	HK\$'000
Investment properties	1,061,000
Trade and other receivables	4,048
Bank balances and cash	2,603
Trade and other payables	(19,043)
Provision for taxation	(274)
Deferred tax liabilities	(13,886)
Net assets disposed of	<u>1,034,448</u>

Gain on disposal of a property company is determined as follows:

	HK\$'000
Consideration received	1,987,608
Less: Transaction cost incurred	(2,100)
Less: Divestment fee	(10,000)
Less: Net assets disposed of	(1,034,448)
	<u>941,060</u>

**(13) Trade and other receivables**

	<i>2018</i> <i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Trade receivables	30,291	34,729
Other receivables and prepayments		
Security deposits	25,669	25,669
Other receivables	5,901	204,431
Prepayments	2,598	2,129
	<u>34,168</u>	<u>232,229</u>
	<u>64,459</u>	<u>266,958</u>

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

	<i>2018</i> <i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
0 - 30 days	29,531	34,548
31 - 90 days	760	170
Over 90 days	-	11
	<u>30,291</u>	<u>34,729</u>

**(14) Borrowings**

	<i>2018</i> <i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Secured term loans	2,000,000	3,100,000
Unsecured term loans	6,505,060	7,355,060
Unsecured revolving loans	400,000	400,000
	<u>8,905,060</u>	<u>10,855,060</u>
Less: unamortised front end fees	(45,604)	(71,849)
	<u>8,859,456</u>	<u>10,783,211</u>
Carrying amount repayable:		
On demand or within one year	400,000	1,496,788
More than one year, but not more than two years	3,491,056	-
More than two years, but not more than five years	4,968,400	9,286,423
	<u>8,859,456</u>	<u>10,783,211</u>
Less: Amount due within one year shown under current liabilities	(400,000)	(1,496,788)
	<u>8,459,456</u>	<u>9,286,423</u>

**(15) Trade and other payables**

	<i>2018</i> <i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
<b>Trade payables</b>		
Tenants' deposits	516,091	511,134
Rental received in advance	29,384	27,247
	<u>545,475</u>	<u>538,381</u>
<b>Other payables</b>		
Trustee's fee	2,422	2,232
Deposits receivable for assets classified as held for sale	-	200,000
Other expenses	239,198	220,848
Interest payable	219	3,875
Others	3,097	2,390
	<u>244,936</u>	<u>429,345</u>
	<u>790,411</u>	<u>967,726</u>

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

The tenants' deposits to be settled after twelve months from the Reporting Year based on lease term amounted to HK\$323.3 million (2017: HK\$308.7 million) as at 31 December 2018.

**(16) Units in issue and to be issued**

	<i>Number of units</i> <i>'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2017	1,902,128	7,879,828
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2017	9,148	83,306
Balance in issue as at 31 December 2017	<u>1,911,276</u>	<u>7,963,134</u>
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2017	3,072	29,348
Balance as at 31 December 2017	<u>1,914,348</u>	<u>7,992,482</u>
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2018	10,051	89,260
Balance in issue as at 31 December 2018	<u>1,924,399</u>	<u>8,081,742</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2018	3,506	31,759
Balance as at 31 December 2018	<u>1,927,905</u>	<u>8,113,501</u>

**(17) 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\$32,013.4 million (2017: HK\$26,887.8 million) and the total number of 1,927,905,503 (2017: 1,914,348,385) units in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

**(18) Net current liabilities and total assets less current liabilities**

As at 31 December 2018, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,074.7 million (2017: HK\$1,146.2 million).

As at 31 December 2018, the Group's total assets less current liabilities amounted to HK\$40,944.2 million (2017: HK\$36,624.1 million).

**(19) Comparative figures**

Certain comparative figures have been reclassified in these consolidated financial statements, which have no material effect on previously reported profit, to conform with the current year's presentation.

For the year ended 31 December 2018, (i) the Manager reviewed and reassessed the nature of the revenue and considered that income amounting to HK\$88.3 million (2017: HK\$94.7 million) relates to the reimbursement of expenditure of the Group rather than an output of the Group's ordinary activities in exchange for consideration and therefore this amount is netted off against relevant expenditures and; (ii) change in fair value of derivative financial instruments has been grouped under finance costs as per Note 8 instead of being presented as a line item in the consolidated statement of profit or loss and other comprehensive income.