

*The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **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**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019 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 unaudited results of Fortune REIT for the six months ended 30 June 2019 (the "Reporting Period") as follows:

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2019	Six months ended 30 June 2018	% change
Revenue (HK\$ million)	<b>974.3</b>	978.1	-0.4%
Net property income (HK\$ million)	<b>748.7</b>	748.6	+0.0%
Cost-to-revenue ratio	<b>20.8%</b>	21.1%	-0.3%
Income available for distribution (HK\$ million)	<b>505.5</b>	505.2	+0.1%
Distribution per unit ("DPU") (HK cents)	<b>26.13</b>	26.34	-0.8%
	As at 30 June 2019	As at 31 December 2018	% change
Net asset value per unit (HK\$)	<b>16.85</b>	16.61	+1.4%
Property valuation (HK\$ million)	<b>42,727</b>	42,000	+1.7%
Gearing ratio / Aggregate leverage <sup>[1]</sup>	<b>20.5%</b>	20.9%	-0.4%

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 2019, 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 published by the Securities and Futures Commission of Hong Kong ("SFC").

## FINANCIAL REVIEW

Fortune REIT recorded a revenue of HK\$974.3 million for the Reporting Period, decreased by 0.4% year-on-year mainly attributed to the loss of income contribution from the Provident Square after its disposal in February 2018, transitional vacancies from Fortune Kingswood asset enhancement initiatives ("AEIs") that commenced in June 2018 as well as a lower average portfolio occupancy compared with the same period last year. Nevertheless, positive rental reversion and higher car park income during the Reporting Period continued to contribute to organic growth. Excluding the impact from the Provident Square disposal and AEIs at Fortune Kingswood, revenue and net property income would have increased by 0.7% and 1.1% year-on-year on a like-for-like basis.

Thanks to a more efficient operation, net property income maintained at HK\$748.7 million for the Reporting Period. Total property operating expenses (excluding the Manager's performance fee) was HK\$202.4 million, decreased by 1.9% year-on-year. Stringent cost control and disposal of Provident Square have led to lower in building management expenses. Cost-to-revenue ratio was 20.8% for the Reporting Period (first half of 2018: 21.1%).

Finance costs (excluding change in fair value of derivative financial instruments) decreased by 2.6% year-on-year to HK\$128.4 million. The average Hong Kong Inter-Bank Offered Rate during the Reporting Period was higher compared with the same period last year, thus increasing the interest cost on the floating portion of debt. Such negative impact was however more than offset by the interest savings resulting from the HK\$1.95 billion loan repayments over the course of 2018. The effective borrowing cost for the Reporting Period was 3.02% (first half of 2018: 2.72%) over a reduced amount of total debt.

Income available for distribution for the Reporting Period was HK\$505.5 million, representing a year-on-year increase of 0.1%. The DPU for the Reporting Period was 26.13 HK cents (first half of 2018: 26.34 HK cents). Based on the closing unit price of HK\$10.74 as at 28 June 2019 in Hong Kong, the DPU implied an annualised distribution yield of 4.9%.

The interim DPU of 26.13 HK cents for the six months ended 30 June 2019 will be paid on 29 August 2019 to Unitholders on the registers of Unitholders of Fortune REIT as at 14 August 2019.

## **CAPITAL MANAGEMENT**

Against external challenges, Fortune REIT remained prudent in capital management. In view of certain interest rate hedging contracts expiring in 2019, additional interest rate swaps were entered during the Reporting Period to maintain an appropriate level of protection against interest rate fluctuations. As at 30 June 2019, interest cost for approximately 59% (31 December 2018: 57%) of Fortune REIT's outstanding debts were hedged through interest rate swaps.

As at 30 June 2019, Fortune REIT's total committed loan facilities amounted to HK\$9,205.1 million (31 December 2018: HK\$9,205.1 million). Gearing ratio and aggregate leverage decreased to 20.5% (31 December 2018: 20.9%) due to lower borrowing level and a higher property valuation. Fortune REIT's gross liability as a percentage of its gross assets decreased to 24.8% as at 30 June 2019 (31 December 2018: 24.9%).

Fortune REIT has obtained both secured and unsecured loan facilities. It possesses good financial flexibility, given that 15 of its 16 investment properties are unencumbered. As at 30 June 2019, approximately 80% 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\$6,196 million as at 30 June 2019. The Trustee has provided guarantees for all loan facilities.

Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements. As at 30 June 2019, available liquidity stood at HK\$1,240.1 million (31 December 2018: HK\$1,242.9 million), comprising committed but undrawn facilities of HK\$700.0 million (31 December 2018: HK\$700.0 million) and cash and deposits of HK\$540.1 million (31 December 2018: HK\$542.9 million).

Net asset value per unit amounted to HK\$16.85 as at 30 June 2019, up 1.4% from HK\$16.61 at the end of 2018.

## PORTFOLIO VALUATION

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$42,727 million as at 30 June 2019, increasing by 4.8% and 1.7% from the valuation as at 30 June 2018 and 31 December 2018 respectively. Jones Lang Lasalle Limited, the principal valuer, has adopted the valuation methodology of income capitalisation approach and cross-referenced with direct comparison approach. The average capitalisation rate remained the same at 4.3%. The higher valuation has resulted in a revaluation gain of HK\$641.3 million for the Reporting Period.

## PORTFOLIO HIGHLIGHTS

As at 30 June 2019, 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.

<b>Property</b>	<b>Gross Rentable Area ("GRA") (Sq. ft.)</b>	<b>Valuation (HK\$ million)</b>	<b>Occupancy</b>	<b>No. of car parking lots</b>
Fortune City One	414,469	8,811	99.0%	653
Fortune Kingswood	665,244	8,764	95.6%	622
Ma On Shan Plaza	310,084	6,196	99.0%	290
Metro Town	180,822	3,960	99.8%	74
Fortune Metropolis	332,168	2,829	90.8%	179
Laguna Plaza	163,203	2,697	99.7%	150
Belvedere Square	276,862	2,680	99.4%	329
Waldorf Avenue	80,842	1,847	100%	73
Caribbean Square	63,018	1,304	100%	117
Jubilee Square	170,616	1,002	98.3%	97
Smartland	123,544	822	96.0%	67
Tsing Yi Square	78,836	813	100%	27
Centre de Laguna	43,000	344	100%	N.A
Hampton Loft	74,734	315	100%	35
Lido Avenue	9,836	209	100%	N.A
Rhine Avenue	14,604	134	100%	N.A
<b>Total / Overall average</b>	<b>3,001,882</b>	<b>42,727</b>	<b>97.4%</b>	<b>2,713</b>

## BUSINESS REVIEW

Despite a soft consumer sentiment in Hong Kong, the operating performance of Fortune Malls has generally been steady during the Reporting Period. Portfolio occupancy reached 97.4% as at 30 June 2019, a notable improvement from 93.1% at the end of 2018. Rental reversion has seen a moderation for renewals during the Reporting Period but nevertheless registered a healthy 7.8%. Tenant retention rate for the Reporting Period was high at 74.8%, demonstrating Fortune Malls as tenants' preferred choice of business location.

The positive leasing results in three of our major malls led to the overall improvement in portfolio occupancy during the Reporting Period. At Ma On Shan Plaza, the repositioning and subdivision of a fitness centre has been completed in March 2019 and received an overwhelming pre-commitment. Occupancy rebounded to 99.0% as at 30 June 2019 (31 December 2018: 92.2%), as new tenants including specialty restaurants and a beauty salon have started business. At Fortune Metropolis, occupancy recovered to 90.8% as at 30 June 2019 (31 December 2018: 73.1%) as we successfully attracted several new tenants including a jewelry retailer as an anchor along with some eateries. Moreover, thanks to good leasing response for the AEIs at the West Block of Fortune Kingswood, its occupancy has improved to 95.6% as at 30 June 2019 (31 December 2018: 88.4%). Although most of these new tenants came in the later part of the Reporting Period, these rental uplifts will be fully reflected in the second half of 2019.

Fortune Malls' well-diversified trade mix with a strong focus on daily necessities has carried us through different economic cycles over the years. As at 30 June 2019, tenants in the non-discretionary retail sectors such as food and beverages, supermarkets as well as services and education altogether accounted for approximately 70% of total GRA. These sectors would remain as the anchor to sustain Fortune REIT's resilience over the long term.

### **AEIs at Fortune Kingswood with good leasing commitment so far**

Over the years, we have demonstrated our strength in adding value to Fortune Malls through many successful AEIs. The most recent endeavor is the HK\$150 million renovation project at the West Block of Fortune Kingswood. Commencing in June 2018, this three-phased AEIs project is in its final phase and slated for completion in the second half of 2019. Leasing response has been encouraging with more than 90% of the West Block already committed so far. Expanded food and beverage offerings, a newly created education zone featuring quality operators as well as a greater variety of household products will inevitably strengthen the West Block as the leading shopping destination in Tin Shui Wai. We look forward to delighting shoppers with a modernized ambience, upgraded amenities and more exciting offerings.

## OUTLOOK

Hong Kong's economic growth slowed down to a modest 0.6% year-on-year for the first quarter of 2019, with private consumption expenditure expanded only marginally. Hong Kong total retail sales value decreased by 1.8% for the first five months of 2019, with luxury spending taking a hit from cautious consumer sentiment amidst various external uncertainties. That said, non-discretionary spending has been well supported by a tight job market and rising income, with categories such as supermarket, food as well as furniture and fixtures registering a modest growth for the first five months of 2019.

Against the backdrop of unresolved trade and political friction, global economic outlook remains cloudy. Nonetheless, many governments around the globe are keeping up their efforts in stimulus measures to support their economies in this time of instability. The US Federal Reserve has also turned to a growth-friendly approach towards interest rate adjustments. The Manager will closely monitor whether the recent protests in Hong Kong would impact our malls' business. Nevertheless, Fortune Malls are private housing estate retail properties catering mainly for non-discretionary spending and tend to be relatively resilient.

Our proactive approach in asset management, upgrading our malls through AEIs, as well as yield-accretive acquisitions have all contributed to Fortune REIT's success in the past 15 years. With a robust balance sheet and a prudent capital management in place, Fortune REIT will continue with these three proven strategies in generating steady returns to our Unitholders.

## EMPLOYEES

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

## NEW UNITS ISSUED

As at 30 June 2019, the total number of issued units of Fortune REIT was 1,930,988,000. As compared with the position as at 31 December 2018, a total of 6,588,630 new units were issued during the Reporting Period in the following manner:

- On 4 January 2019, 3,506,133 new units were issued to the Manager at the price of HK\$9.0581 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$31.8 million payable by Fortune REIT for the period from 1 October 2018 to 31 December 2018.
- On 1 April 2019, 3,082,497 new units were issued to the Manager at the price of HK\$10.0790 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$31.1 million payable by Fortune REIT for the period from 1 January 2019 to 31 March 2019.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 9,631,704 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 2018 (“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 Period.

## **RECORD DATE FOR DISTRIBUTION ENTITLEMENT**

For the purpose of determining the distribution entitlement for the interim distribution, the record date will be on Wednesday, 14 August 2019. In order to qualify for the interim 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, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Wednesday, 14 August 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 Wednesday, 14 August 2019. The payment of interim distribution will be made to unitholders on Thursday, 29 August 2019.

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

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

## **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 2019.

## ISSUANCE OF 2019 INTERIM REPORT

The 2019 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 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, 26 July 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.*

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

		<i>Six months ended 30 June</i>	
		<i>2019</i>	<i>2018</i>
	Notes	<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Revenue	5	974,274	978,062
Property operating expenses	6	<u>(202,351)</u>	<u>(206,202)</u>
<b>Net property income before manager's performance fee</b>		<b>771,923</b>	<b>771,860</b>
Manager's performance fee		<u>(23,175)</u>	<u>(23,276)</u>
<b>Net property income</b>		<b>748,748</b>	<b>748,584</b>
Manager's base fee		(63,026)	(58,425)
Foreign currency exchange gain		37	56
Interest income		645	4,004
Trust expenses	7	(11,272)	(8,859)
Gain on disposal of a property company		-	941,060
Change in fair value of investment properties	12	641,331	3,011,511
Finance costs	8	<u>(181,407)</u>	<u>(89,508)</u>
<b>Profit before taxation and transactions with unitholders</b>	9	<b>1,135,056</b>	<b>4,548,423</b>
Income tax expense	10	<u>(113,301)</u>	<u>(113,415)</u>
<b>Profit for the period, before transactions with unitholders</b>		<b>1,021,755</b>	<b>4,435,008</b>
Distributions to unitholders		<u>(505,449)</u>	<u>(505,181)</u>
<b>Net comprehensive income for the period</b>		<b><u>516,306</u></b>	<b><u>3,929,827</u></b>
<b>Income available for distribution to unitholders</b>		<b><u>505,449</u></b>	<b><u>505,181</u></b>
Basic earnings per unit (HK cents)	11	<u>52.90</u>	<u>232.05</u>

# Distribution Statement

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<b>Profit for the period, before transactions with unitholders</b>		<b>1,021,755</b>	<b>4,435,008</b>
<b>Adjustments:</b>			
Manager's base fee		63,026	58,425
Gain on disposal of a property company		-	(941,060)
Change in fair value of investment properties		(641,331)	(3,011,511)
Change in fair value of derivative financial instruments		53,010	(42,348)
Foreign currency exchange gain		(37)	(56)
Other non-tax deductible trust expenses		9,026	6,723
<b>Income available for distribution</b>	(i)	<b>505,449</b>	<b>505,181</b>
<b>Distribution per unit (HK cents)</b>	(ii)	<b>26.13</b>	<b>26.34</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 26.13 HK cents for the six months ended 30 June 2019 is calculated based on the income available for distribution for the period of HK\$505.4 million over 1,933,977,332 units, represented issued units as at 30 June 2019 of 1,930,988,000 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 2019 of 2,989,332 units. The distribution amounted to HK\$505.4 million for the six months ended 30 June 2019 will be paid on 29 August 2019.

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.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	12	42,727,000	42,000,000
Derivative financial instruments		6,848	18,816
<b>Total non-current assets</b>		<b>42,733,848</b>	<b>42,018,816</b>
<b>Current assets</b>			
Trade and other receivables	13	72,149	64,459
Bank balances and cash		540,057	542,899
Derivative financial instruments		1,856	6,290
<b>Total current assets</b>		<b>614,062</b>	<b>613,648</b>
<b>Total assets</b>		<b>43,347,910</b>	<b>42,632,464</b>
<b>Non-current liabilities</b>			
Derivative financial instruments		36,608	-
Borrowings	14	8,164,169	8,459,456
Deferred tax liabilities		484,501	471,334
<b>Total non-current liabilities</b>		<b>8,685,278</b>	<b>8,930,790</b>
<b>Current liabilities</b>			
Trade and other payables	15	776,148	790,411
Borrowings	14	684,679	400,000
Distribution payable		505,449	481,007
Provision for taxation		103,659	16,891
<b>Total current liabilities</b>		<b>2,069,935</b>	<b>1,688,309</b>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>10,755,213</b>	<b>10,619,099</b>
<b>Net assets attributable to unitholders</b>		<b>32,592,697</b>	<b>32,013,365</b>
<b>Units in issue and to be issued ('000)</b>	16	<b>1,933,977</b>	<b>1,927,905</b>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	17	<b>16.85</b>	<b>16.61</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.

During the Reporting Period, Fortune REIT has sought the voluntary delisting from the Main Board of SGX-ST (“SGX Delisting”) and has received a confirmation from SGX-ST that it has no objection to the SGX Delisting. The last day for trading of the Units on SGX-ST is tentatively 3 October 2019 and the date of SGX Delisting is tentatively 11 October 2019.

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 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 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.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

## **Application of new IFRS**

In the current interim period, the Group has applied, for the first time, the IFRS 16 *Leases* ("IFRS 16") issued by the International Accounting Standards Board which is pertinent to the Group and is mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements.

IFRS 16 superseded IAS 17 *Leases* ("IAS 17") and the related interpretations. 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.

The application of the new and amendments to IFRSs and the interpretations in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

### **(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 (31 December 2018: 16) properties as at 30 June 2019 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**

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Base rental	763,790	757,353
Other rental	88,372	95,442
Other income	646	526
Total rental income	852,808	853,321
Charge-out collections (Note)	121,466	124,741
	974,274	978,062

**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 recognized over time as income when the services and facilities are provided.

**(6) Operating Expenses**

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Advertising and promotion	6,733	8,898
Building management expenses	102,543	108,593
Carpark operating expenses	15,682	14,737
Government rents and rates	6,724	6,495
Leasing commission and marketing services fee	16,631	13,790
Legal and other professional fees	3,351	3,156
Property manager fee	23,868	23,938
Utilities	19,257	19,200
Others	7,562	7,395
	<u>202,351</u>	<u>206,202</u>

**(7) Trust Expenses**

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Trustee's fee	7,311	6,699
Other charges	3,961	2,160
	<u>11,272</u>	<u>8,859</u>

**(8) Finance costs**

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on bank borrowings	120,287	105,176
Front end fees	9,392	13,666
Commitment fee	868	874
Interest rate swaps and caps (income)/ expenses realised	(2,150)	12,140
	<u>128,397</u>	<u>131,856</u>
Change in fair value of derivative financial instruments	53,010	(42,348)
	<u>181,407</u>	<u>89,508</u>

**(9) 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>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,464	1,384
Fee to internal auditor	175	161
Valuation fees (paid to principal valuer)	152	315

**(10) Income tax expense**

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax:		
- Hong Kong	100,134	100,983
Deferred taxation	13,167	12,432
	<u>113,301</u>	<u>113,415</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2018: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (six months ended 30 June 2018: 17%). No provision for Singapore income tax has been made for Fortune REIT as it had no assessable profit for both periods.

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 period, before transactions with unitholders of HK\$1,021.8 million (six months ended 30 June 2018: HK\$4,435.0 million) by the weighted average of 1,931,479,666 (six months ended 2018: 1,911,195,135) 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.

**(12) Investment properties**

	<i>For the six months ended 30 June 2019 HK\$'000 (Unaudited)</i>	<i>For the year ended 31 December 2018 HK\$'000 (Audited)</i>
<b>Fair Value</b>		
At beginning of the period/year	42,000,000	37,751,000
During the period/year:		
Capital expenditure incurred in upgrading investment properties	85,669	61,352
Change in fair value of investment properties	641,331	4,187,648
At end of the period/year	<u>42,727,000</u>	<u>42,000,000</u>

**(13) Trade and other receivables**

	<i>30 June 2019 HK\$'000 (Unaudited)</i>	<i>31 December 2018 HK\$'000 (Audited)</i>
Trade receivables	<u>37,279</u>	<u>30,291</u>
Other receivables and prepayments		
Security deposits	25,671	25,669
Other receivables	7,378	5,901
Prepayments	1,821	2,598
	<u>34,870</u>	<u>34,168</u>
	<u>72,149</u>	<u>64,459</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>30 June 2019 HK\$'000 (Unaudited)</i>	<i>31 December 2018 HK\$'000 (Audited)</i>
0 - 30 days	35,764	29,531
31 - 90 days	1,515	760
	<u>37,279</u>	<u>30,291</u>

**(14) Borrowings**

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Secured term loans	2,000,000	2,000,000
Unsecured term loans	6,505,060	6,505,060
Unsecured revolving loans	380,000	400,000
	<u>8,885,060</u>	<u>8,905,060</u>
Less: unamortised front end fees	(36,212)	(45,604)
	<u>8,848,848</u>	<u>8,859,456</u>
Carrying amount repayable:		
On demand or within one year	684,679	400,000
More than one year, but not more than two years	3,190,069	3,491,056
More than two years, but not more than five years	4,974,100	4,968,400
	<u>8,848,848</u>	<u>8,859,456</u>
Less: Amount due within one year shown under current liabilities	(684,679)	(400,000)
	<u>8,164,169</u>	<u>8,459,456</u>

**(15) Trade and other payables**

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Trade payables:</b>		
Tenants' deposits	531,392	516,091
Rental received in advance	30,036	29,384
	<u>561,428</u>	<u>545,475</u>
<b>Other payables:</b>		
Trustee's fee	2,478	2,422
Manager's performance fee	23,175	45,711
Other expenses	185,062	193,487
Interest payable	491	219
Others	3,514	3,097
	<u>214,720</u>	<u>244,936</u>
	<u>776,148</u>	<u>790,411</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\$328.6 million (31 December 2018: HK\$323.3 million) as at 30 June 2019.

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

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2018	1,914,348	7,992,482
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>
Issue of new units during the year:		
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>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2019	3,083	31,068
Balance in issue as at 30 June 2019	<u>1,930,988</u>	<u>8,144,569</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2019	2,989	31,958
Balance as at 30 June 2019	<u><u>1,933,977</u></u>	<u><u>8,176,527</u></u>

**(17) Net asset value per unit attributable to unitholders**

Net asset value per unit as at 30 June 2019 is calculated based on the net assets attributable to unitholders of the Group of HK\$32,592.7 million (31 December 2018: HK\$32,013.4 million) and the total number of 1,933,977,332 units (31 December 2018: 1,927,905,503 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 30 June 2019, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,455.9 million (31 December 2018: HK\$1,074.7 million).

As at 30 June 2019, the Group's total assets less current liabilities amounted to HK\$41,278.0 million (31 December 2018: HK\$40,944.2 million).