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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 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, supplemented or otherwise modified from time to time). Fortune REIT is listed on The Stock Exchange of Hong Kong Limited ("**SEHK**") and its units have been voluntarily delisted from Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 21 October 2019.

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, +WOO, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Laguna Plaza, Belvedere Square, Waldorf Avenue, Caribbean Square, Jubilee Square, Tsing Yi Square, Smartland, 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 ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2019 (the “**Reporting Year**” or “**FY2019**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2019	Year ended 31 December 2018	% change
Revenue (HK\$ million)	1,959.7	1,940.1	+1.0%
Net property income (HK\$ million)	1,480.9	1,471.8	+0.6%
Cost-to-revenue ratio	22.1%	21.8%	+0.3%
Income available for distribution (HK\$ million)	993.8	986.2	+0.8%
Distribution per unit (“ DPU ”) (HK cents)	51.28	51.28	+0.0%
	As at 31 December 2019	As at 31 December 2018	% change
Net asset value per unit (HK\$)	16.81	16.61	+1.2%
Property valuation (HK\$ million)	42,820	42,000	+2.0%
Gearing ratio ^[1]	19.8%	20.9%	-1.1%

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets.

DISTRIBUTION

Fortune REIT’s distribution policy for the Reporting Year was 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 delivered a positive set of results for FY2019. Revenue and net property income increased by 1.0% and 0.6% year-on-year to HK\$1,959.7 million (2018: HK\$1,940.1 million) and HK\$1,480.9 million (2018: HK\$1,471.8 million) respectively. The growth mainly reflected the increased rental from +WOO following its major renovation at Phase 1, a higher average portfolio occupancy, as well as positive rental reversions for the portfolio. The increase was nevertheless partly offset by the loss of income from Provident Square which was divested in February 2018.

Total property operating expenses for FY2019 (excluding the Manager’s performance fee) increased by 2.5% year-on-year to HK\$433.0 million (2018: HK\$422.6 million). The increased statutory minimum wage, from HK\$34.5 per hour to HK\$37.5 per hour, effective from 1 May 2019 impacted on our expense for the second half of 2019. Building management expenses increased by 3.2% year-on-year in the second half of 2019, registered a savings of 1.1% for the full year. Besides, leasing commission and marketing services fee also increased by 17.1% year-on-year as a result of increased leasing activities, including new lettings at +WOO. The cost-to-revenue ratio remained steady at 22.1% (2018: 21.8%).

Income available for distribution for FY2019 was HK\$993.8 million (2018: HK\$986.2 million), an increase of 0.8% year-on-year. Accordingly, the DPU for the Reporting Year was 51.28 HK cents (2018: 51.28 HK cents). Comprising an interim and final DPU of 26.13 HK cents and 25.15 HK cents respectively, the FY2019 DPU represented a yield of 5.6% based on the closing unit price of HK\$9.09 as at 31 December 2019.

Finance cost (excluding change in fair value of derivative financial instruments) was contained at HK\$266.9 million (2018: HK\$266.6 million). The average one-month Hong Kong Interbank Offered Rate for 2019 was higher than that of 2018 by more than 50 basis points and led to increased interest cost on the floating portion of debt. Such increase was however compensated by the interest rate savings from the HK\$1.95 billion loan repayment in 2018. The effective borrowing cost for the Reporting Year was at 3.12% (2018: 2.89%).

Final Distribution

The final DPU of 25.15 HK cents for the six months ended 31 December 2019 will be paid on 6 March 2020 to Unitholders on the register of Unitholders of Fortune REIT as at 20 February 2020.

Capital Management

Fortune REIT's total committed loan facilities were reduced to HK\$8,900.0 million as at 31 December 2019 (2018: HK\$9,205.1 million). Gearing ratio declined slightly to 19.8% (2018: 20.9%) due to a lower borrowing level and a higher property valuation. Gross liability as a percentage of its gross assets decreased to 24.2% as at 31 December 2019 (2018: 24.9%).

Fortune REIT has obtained both secured and unsecured loan facilities. With 15 out of its 16 investment properties being unencumbered, Fortune REIT possesses good financial flexibility. As at 31 December 2019, approximately 78% of total committed debts were unsecured. The only secured loan facility is over Ma On Shan Plaza which carried a fair value of HK\$6,225 million as at 31 December 2019. HSBC Institutional Trust Services (Asia) Limited, as the trustee of Fortune REIT (the "Trustee") has provided guarantees for all loan facilities.

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements. As at 31 December 2019, available liquidity stood at HK\$530.4 million (2018: HK\$1,242.9 million), comprising committed but undrawn facilities of HK\$394.0 million (2018: HK\$700.0 million) and cash and bank deposits of HK\$136.4 million (2018: HK\$542.9 million).

As at 31 December 2019, interest cost for approximately 53% (2018: 57%) of Fortune REIT's outstanding debts was hedged through interest rate swaps.

Net asset value per unit amounted to HK\$16.81 as at 31 December 2019, up 1.2% from HK\$16.61 at the end of 2018.

Portfolio Valuation

Fortune REIT's portfolio valuation increased 2.0% over a year earlier to HK\$42,820 million as at 31 December 2019 (2018: HK\$42,000 million). Jones Lang LaSalle Limited, the Principal Valuer, adopted the valuation methodology of income capitalisation approach and cross-referenced with a direct comparison approach. The average capitalisation rate remained the same at 4.28% (2018: 4.28%). The higher valuation has resulted in a revaluation gain of HK\$662.6 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 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.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	8,860	97.6%	653
+WOO	665,244	8,794	96.2%	622
Ma On Shan Plaza	310,084	6,225	99.0%	290
Metro Town	180,822	3,975	100.0%	74
Fortune Metropolis	332,168	2,841	91.1%	179
Laguna Plaza	163,203	2,702	98.8%	150
Belvedere Square	276,862	2,637	94.4%	329
Waldorf Avenue	80,842	1,847	99.3%	73
Caribbean Square	63,018	1,263	100.0%	117
Jubilee Square	170,616	1,011	100.0%	97
Tsing Yi Square	78,836	831	98.4%	27
Smartland	123,544	830	95.4%	67
Centre de Laguna	43,000	345	100.0%	N.A
Hampton Loft	74,734	316	100.0%	35
Lido Avenue	9,836	209	100.0%	N.A
Rhine Avenue	14,604	134	100.0%	N.A
Total / Overall average	3,001,882	42,820	96.9%	2,713

BUSINESS REVIEW

Fortune Malls delivered satisfactory operational results during the Reporting Year, against weaker domestic demand in Hong Kong as well as headwinds from economic and social factors. Thanks to our necessity-focused tenant mix and proactive leasing strategy, the business at Fortune Malls remained resilient. Rental reversion for the overall portfolio remained positive while occupancy and tenant retention remained healthy for the portfolio.

Since the beginning of 2019, the Manager has stepped up efforts on improving the portfolio occupancy, with occupancy up to 97.4% by the end of June 2019, from 93.1% at the end of 2018. This had allowed us to be in better shape to withstand the challenges in the retail market during the second half of 2019. Portfolio occupancy stood at 96.9% as at 31 December 2019. While tenant retention remained strong at 77%, newly committed rents in the later part of 2019 was inevitably affected by the weaker retail market. Nevertheless, rental reversion for renewals remained positive during the second half of 2019 with the full-year figure moderating to 7.2%.

The citywide protests in the second half of 2019 have affected the operation of shopping malls across Hong Kong in various ways. Some of our malls have seen disruptions on certain days where there were public events nearby, although not to any major extent. Our priority is to safeguard the well-being of our shoppers, tenants and front-line staff while we strive to maintain normal operations at our malls. During these difficult times, we have stepped up our marketing efforts in driving spending in our malls and put in extra resources to assist the affected tenants to resume their business as soon as practicable.

Fortune Malls are positioned to serve the daily convenience needs of the neighborhood and be the place of choice for dining, shopping and gathering in the community. The tenant mix will continue to have a major focus in the non-discretionary trades which have been resilient throughout economic cycles in the past. Tenants in the non-discretionary trades such as supermarkets, food and beverages as well as services and education accounted for approximately 70% of total GRA.

AEIs at +WOO yield positive return

We continue to invest for the long-term growth of our shopping malls and are committed to present a sustainable business environment for our tenants. In 2019, the completion of our latest asset enhancement initiatives (“**AEIs**”) at +WOO has yielded positive return and continued to add to our successful track record. The HK\$150 million renovation at +WOO Phase 1, which started in June 2018, was completed and now provides enriched offerings of retail, food and beverages, household products and education services. Coupled with a new branding image, an upbeat ambience and upgraded amenities at Phase 1, +WOO is set to bring new shopping experience to the Tin Shui Wai community.

Within the immediate vicinity of +WOO, a large-scale residential development of over 1,500 flats at Tin Wing Station is to be completed in 2021. We expect the growing catchment will continue to support the business at +WOO. The AEIs at +WOO Phase 2 are currently under planning stage to further strengthen +WOO's position as the leading one-stop leisure and shopping destination in Tin Shui Wai.

OUTLOOK

Against the backdrop of local social incidents and subsequent outbreak of citywide protests, Hong Kong's economy has fallen into a technical recession. In 2019, GDP fell by 1.2% from a year ago, the first annual decline since 2009. The local social incidents has heavily dampened sentiment and dragged on consumption. Retail sales deteriorated quickly since June 2019 and experienced its worst performance in October 2019 with a drop of 24.3% year-on-year in value. Visitor arrivals, particularly tourists from Mainland China, dropped instantly by 5.5% year-on-year in July 2019 and recorded steeper declines in the range of 35.0% to 58.4% for the following four months.

Looking ahead, trade relations between China and the United States may seem to have stabilized for the time being though there remains uncertainties on its developments. In addition, the novel coronavirus, the local social incidents in Hong Kong and slowdown of growth in the Chinese economy will adversely impact the retail market in the near term and exert pressure on employment. Tenants are holding off commitment to long leases and expansion as their affordability has been undermined. Pressure has been put on landlords for rent reductions, which will impair the near-term rental growth prospects.

Regardless of the near-term challenges, Fortune REIT will remain focused on its long-term goals and sustainable development. We will continue to be proactive in asset management, add value to Fortune Malls through AEs and prudently seek for acquisitions when opportunities arise.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2019, the total number of issued units of Fortune REIT was 1,937,542,226. As compared with the position as at 31 December 2018, a total of 13,142,856 new units were issued during the Reporting Year 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.
- On 3 July 2019, 2,989,332 new units were issued to the Manager at the price of HK\$10.6905 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$32.0 million payable by Fortune REIT for the period from 1 April 2019 to 30 June 2019.
- On 4 October 2019, 3,564,894 new units were issued to the Manager at the price of HK\$9.0630 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$32.3 million payable by Fortune REIT for the period from 1 July 2019 to 30 September 2019.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 10,055,704 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 listed on SEHK and its units have been voluntarily delisted from the Singapore Exchange Securities Trading Limited on 21 October 2019. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong, 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.

The Manager confirms that Fortune REIT and the Manager have in material terms complied with the provisions of the Compliance Manual and have adhered to the principles and guidelines set out in the CG 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, 20 February 2020. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 20 February 2020. The payment of final distribution will be made to unitholders on Friday, 6 March 2020.

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 2019.

ISSUANCE OF ANNUAL REPORT 2019

The 2019 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2020.

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, 4 February 2020

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 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	5	1,959,697	1,940,106
Property operating expenses	6	<u>(432,994)</u>	<u>(422,616)</u>
Net property income before manager's performance fee		1,526,703	1,517,490
Manager's performance fee		<u>(45,846)</u>	<u>(45,711)</u>
Net property income		1,480,857	1,471,779
Manager's base fee		(127,714)	(121,019)
Foreign currency exchange loss, net		(111)	(38)
Interest income		1,613	6,370
Trust expenses	7	(23,566)	(18,197)
Change in fair value of investment properties	12	662,591	4,187,648
Gain on disposal of a property company	12	-	941,060
Finance costs	8	<u>(298,115)</u>	<u>(255,612)</u>
Profit before taxation and transactions with unitholders	9	1,695,555	6,211,991
Income tax expense	10	<u>(218,751)</u>	<u>(221,224)</u>
Profit for the year, before transactions with unitholders		1,476,804	5,990,767
Distributions to unitholders		<u>(993,763)</u>	<u>(986,188)</u>
Net comprehensive income for the year		<u>483,041</u>	<u>5,004,579</u>
Income available for distribution to unitholders		<u>993,763</u>	<u>986,188</u>
Basic earnings per unit (HK cents)	11	<u>76.33</u>	<u>311.78</u>

Distribution Statement

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Profit for the year, before transactions with unitholders		1,476,804	5,990,767
Adjustments:			
Manager's base fee		127,714	121,019
Gain on disposal of a property company		-	(941,060)
Change in fair value of investment properties		(662,591)	(4,187,648)
Change in fair value of derivative financial instruments		31,172	(10,949)
Foreign currency exchange loss, net		111	38
Other non-tax deductible trust expenses		20,553	14,021
Income available for distribution	(i)	993,763	986,188
Distribution to unitholders			
26.13 HK cents (2018: 26.34 HK cents) per unit for the six months ended 30 June	(ii)	505,449	505,181
25.15 HK cents (2018: 24.94 HK cents) per unit for the six months ended 31 December	(iii)	488,314	481,007
Income available for distribution		993,763	986,188
Distribution per unit (HK cents)		51.28	51.28

Notes:

- (i) The distribution policy of Fortune REIT for the year ended 31 December 2019 was 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 was 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 was paid on 29 August 2019.

The distribution 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 the 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.

- (iii) The distribution per unit of 25.15 HK cents for the six months ended 31 December 2019 (six months ended 31 December 2018: 24.94 HK cents) is calculated based on the income available for distribution for the period of HK\$488.3 million (six months ended 31 December 2018: HK\$481.0 million) over 1,941,116,457 units (31 December 2018: 1,927,905,503 units), representing issued units as at 31 December 2019 of 1,937,542,226 units (31 December 2018: 1,924,399,370 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 2019 of 3,574,231 units (fourth quarter of 2018: 3,506,133 units). The distribution amounting to HK\$488.3 million (six months ended 31 December 2018: HK\$481.0 million) will be paid on 6 March 2020 (six months ended 31 December 2018: 1 March 2019).

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	42,820,000	42,000,000
Derivative financial instruments		1,327	18,816
Total non-current assets		42,821,327	42,018,816
Current assets			
Trade and other receivables	13	85,496	64,459
Bank balances and cash		136,375	542,899
Derivative financial instruments		6,291	6,290
Total current assets		228,162	613,648
Total assets		43,049,489	42,632,464
Non-current liabilities			
Derivative financial instruments		13,684	-
Borrowings	14	4,979,800	8,459,456
Deferred tax liabilities		500,771	471,334
Total non-current liabilities		5,494,255	8,930,790
Current liabilities			
Trade and other payables	15	750,586	790,411
Borrowings	14	3,499,379	400,000
Distribution payable		488,314	481,007
Provision for taxation		192,835	16,891
Total current liabilities		4,931,114	1,688,309
Total liabilities, excluding net assets attributable to unitholders		10,425,369	10,619,099
Net assets attributable to unitholders		32,624,120	32,013,365
Units in issue and to be issued ('000)	16	1,941,116	1,927,905
Net asset value per unit attributable to unitholders (HK\$)	17	16.81	16.61

Notes

(1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended, supplemented, or otherwise modified from time to time). Fortune REIT was primary listed on SEHK and secondary listed on SGX-ST. The units of Fortune REIT were voluntarily delisted from the Main Board of SGX-ST on 21 October 2019, and became solely listed on the SEHK.

The Manager entered into supplemental deed of retirement and appointment of trustee (the “**Supplemental Deed**”) with HSBC Institutional Trust Services (Singapore) Limited (in its capacity as retiring trustee of Fortune REIT, “**Retiring Trustee**”) and the Trustee on 19 September 2019. The retirement of the Retiring Trustee and appointment of the Trustee were effective on 24 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 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 applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK, the relevant provisions of the Trust Deed and the REIT Code issued by SFC.

The consolidated financial statements have been prepared on historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values at the end of each reporting period.

The Manager is of the opinion that, taking into account the headroom of the fair value of investment properties, internal financial resources of the Group and presently available undrawn banking facilities together with the on-going negotiation with banks to obtain new banking facilities and/or contemplating to renew existing bank borrowing which will mature within one year, 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

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the consolidated financial statements for the year ended 31 December 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current year, the Group has applied, for the first time, the IFRS 16 *Leases* (“**IFRS 16**”) issued by the IASB 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 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 IFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

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

Amendments to IAS 1 and IAS 8	Definition of Material ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹

¹ Effective for annual periods beginning on or after 1 January 2020.

The Manger anticipates that the application of the amendments to IFRSs that are not yet effective will have no material impact on the Group's consolidated financial statements in the foreseeable future.

(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 (2018: 16) properties as at 31 December 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>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Revenue arising from operating lease:		
Fixed	1,589,679	1,574,354
Variable	5,848	7,852
Charge-out collections	246,548	243,888
Car park revenue	113,519	112,485
Other income	4,103	1,527
	<u>1,959,697</u>	<u>1,940,106</u>

(6) Property operating expenses

	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Advertising and promotion	18,308	16,214
Building management expenses	215,729	218,218
Carpark operating expenses	31,504	29,693
Government rents and rates	12,988	13,390
Leasing commission and marketing services fee	34,425	29,389
Legal and other professional fees	7,036	6,521
Property management fee	47,989	47,512
Utilities	48,023	46,561
Others	16,992	15,118
	<u>432,994</u>	<u>422,616</u>

(7) Trust Expenses

	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Trustee's fee	14,448	13,930
Other charges	9,118	4,267
	<u>23,566</u>	<u>18,197</u>

(8) Finance costs

	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Interest expenses on bank borrowings	257,880	227,884
Front end fees	18,783	26,245
Commitment fee	1,471	1,727
Interest rate swaps and caps (income)/expenses realised	(11,191)	10,705
	<u>266,943</u>	<u>266,561</u>
Change in fair value of derivative financial instruments	31,172	(10,949)
	<u>298,115</u>	<u>255,612</u>

(9) Profit before taxation and transactions with unitholders

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

	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Audit fee	1,592	1,689
Fee to internal auditor	450	350
Valuation fees (paid to principal valuer)	532	524
	<u>2,574</u>	<u>2,563</u>

(10) Income tax expense

	2019 HK\$'000	2018 HK\$'000
Current tax:		
- Hong Kong	190,127	195,352
- Singapore	22	26
- Over provision in prior years	(835)	(1,830)
	<u>189,314</u>	<u>193,548</u>
Deferred taxation:		
- Current year	29,480	26,471
- (Over)/under provision in prior years	(43)	1,205
	<u>29,437</u>	<u>27,676</u>
	<u><u>218,751</u></u>	<u><u>221,224</u></u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong profits tax at 16.5% (2018: 16.5%) for the year ended 31 December 2019. Taxation arising in Singapore is calculated at 17% (2018: 17%) for the year ended 31 December 2019.

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\$1,476.8 million (2018: HK\$5,990.8 million) by the weighted average of 1,934,837,017 (2018: 1,921,476,481) 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

	2019 HK\$'000	2018 HK\$'000
Fair Value		
At beginning of year	42,000,000	37,751,000
During the year:		
Capital expenditure incurred in upgrading investment properties	157,409	61,352
Change in fair value of investment properties	662,591	4,187,648
At end of year	<u><u>42,820,000</u></u>	<u><u>42,000,000</u></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 bused to repay part of the banking facilities. The disposal results in a gain of approximately HK\$941.1 million.

(13) Trade and other receivables

	2019 HK\$'000	2018 HK\$'000
Trade receivables	42,881	30,291
Other receivables and prepayments		
Security deposits	25,671	25,669
Other receivables	13,620	5,901
Prepayments	3,324	2,598
	<u>42,615</u>	<u>34,168</u>
	<u>85,496</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:

	2019 HK\$'000	2018 HK\$'000
0 - 30 days	40,554	29,531
31 - 90 days	2,327	760
	<u>42,881</u>	<u>30,291</u>

(14) Borrowings

	2019 HK\$'000	2018 HK\$'000
Secured term loans	2,000,000	2,000,000
Unsecured term loans	6,200,000	6,505,060
Unsecured revolving loans	306,000	400,000
	<u>8,506,000</u>	<u>8,905,060</u>
Less: unamortised front end fees	(26,821)	(45,604)
	<u>8,479,179</u>	<u>8,859,456</u>
Carrying amount repayable:		
Within one year	3,499,379	400,000
More than one year, but not more than two years	3,785,000	3,491,056
More than two years, but not more than five years	1,194,800	4,968,400
	<u>8,479,179</u>	<u>8,859,456</u>
Less: Amount due within one year shown under current liabilities	(3,499,379)	(400,000)
	<u>4,979,800</u>	<u>8,459,456</u>

(15) Trade and other payables

	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Trade payables		
Tenants' deposits	505,062	516,091
Rental received in advance	27,931	29,384
	<u>532,993</u>	<u>545,475</u>
Other payables		
Trustee's fee	1,091	2,422
Manager's performance fees	7,639	45,711
Other expenses	201,773	193,487
Interest payable	86	219
Others	7,004	3,097
	<u>217,593</u>	<u>244,936</u>
	<u>750,586</u>	<u>790,411</u>

Trade and other payables comprise mainly of amounts outstanding for ongoing costs and deposits refundable to tenants upon termination or cancellation of operating lease arrangements. 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\$266.5 million (2018: HK\$323.3 million) as at 31 December 2019.

(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 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 year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2019	9,637	95,335
Balance in issue as at 31 December 2019	<u>1,937,542</u>	<u>8,208,836</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2019	3,574	32,379
Balance as at 31 December 2019	<u>1,941,116</u>	<u>8,241,215</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\$32,624.1 million (2018: HK\$32,013.4 million) and the total number of 1,941,116,457 (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 31 December 2019, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$4,703.0 million (2018: HK\$1,074.7 million).

As at 31 December 2019, the Group's total assets less current liabilities amounted to HK\$38,118.4 million (2018: HK\$40,944.2 million).