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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

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020 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**").

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, Belvedere Square, Laguna Plaza, 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 ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2020 (the “**Reporting Period**”) as follows:

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2020	Six months ended 30 June 2019	% change
Revenue (HK\$ million)	<b>951.8</b>	974.3	-2.3%
Net property income (HK\$ million)	<b>718.2</b>	748.7	-4.1%
Income available for distribution (HK\$ million)	<b>489.7</b>	505.4	-3.1%
Distribution to unitholders (HK\$ million)	<b>440.7</b>	505.4	-12.8%
Distribution per unit (“ <b>DPU</b> ”) (HK cents)	<b>22.60</b>	26.13	-13.5%
	As at 30 June 2020	As at 31 December 2019	% change
Net asset value per unit (HK\$)	<b>15.37</b>	16.81	-8.6%
Property valuation (HK\$ million)	<b>40,327</b>	42,820	-5.8%
Gearing ratio <sup>[1]</sup>	<b>21.6%</b>	19.8%	+1.8%
Cost-to-revenue ratio	<b>22.2%</b>	20.8%	+1.4%

Note:

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

## DISTRIBUTION

Subsequent to the voluntary delisting of Fortune REIT from the Singapore Exchange Securities Trading Limited in October 2019 and the corresponding Trust Deed amendments, Fortune REIT’s distribution policy is to distribute no less than 90% of its audited annual net income after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments set out in the Trust Deed.

## FINANCIAL REVIEW

Fortune REIT recorded a revenue of HK\$951.8 million for the six months ended 30 June 2020, down by 2.3% year-on-year mainly attributable to negative rental reversions and lower carpark income recorded during the Reporting Period. Total property operating expenses (excluding the Manager’s performance fee) increased by 4.5% year-on-year to HK\$211.4 million due to allowance for credit losses amounted to HK\$6.2 million as well as increased marketing expenses and building management expenses in response to the COVID-19 situation. As a result, net property income decreased by 4.1% year-on-year to HK\$718.2 million while cost-to-revenue ratio increased to 22.2% for the Reporting Period (first half of 2019: 20.8%).

Finance costs (excluding change in fair value of derivative financial instruments) increased by 8.8% year-on-year to HK\$139.7 million. The increase was attributable to higher effective borrowing cost and a slightly higher debt level during the Reporting Period. Effective borrowing cost for the Reporting Period was 3.20% (first half of 2019: 3.02%).

Income available for distribution for the Reporting Period was HK\$489.7 million, representing a year-on-year decrease of 3.1%. In anticipation of the challenges ahead and as a prudent measure, the Board has decided on a 90% distribution payout ratio to increase cash reserves. Accordingly, the DPU for the Reporting Period was 22.60 HK cents (first half of 2019: 26.13 HK cents). Based on the closing unit price of HK\$6.97 as at 30 June 2020, the DPU implied an annualised distribution yield of 6.5%.

The interim DPU of 22.60 HK cents for the six months ended 30 June 2020 will be paid on 18 September 2020 to Unitholders on the registers of Unitholders of Fortune REIT as at 11 August 2020.

### **Index inclusion signifies a key milestone**

Fortune REIT has been included in the MSCI Hong Kong Small Cap index, effective as of market close on 29 May 2020. This marks an important milestone to raise Fortune REIT's profile in the global capital markets and to enhance the trading liquidity further.

## **CAPITAL MANAGEMENT**

As at 30 June 2020, Fortune REIT's total committed loan facilities amounted to HK\$8,900 million (31 December 2019: HK\$8,900 million). Gearing ratio increased to 21.6% (31 December 2019: 19.8%) due to lower property valuation. Fortune REIT's gross liability as a percentage of its gross assets increased to 26.2% as at 30 June 2020 (31 December 2019: 24.2%). Loans of HK\$3,200 million will mature in December 2020 and we are in discussion with banks to refinance the loan ahead of the maturity.

Fortune REIT has obtained both secured and unsecured loan facilities. It possesses good financial flexibility as 15 of its 16 investment properties are unencumbered. As at 30 June 2020, approximately 77% of total committed debts were unsecured. The only secured loan facility is over Ma On Shan Plaza which carried a fair value of HK\$5,817 million as at 30 June 2020. 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 capability to satisfy its financial commitment and working capital requirements. As at 30 June 2020, available liquidity stood at HK\$926.5 million (31 December 2019: HK\$530.4 million), comprising committed but undrawn facilities of HK\$700.0 million (31 December 2019: HK\$394.0 million) and cash and bank deposits of HK\$226.5 million (31 December 2019: HK\$136.4 million).

Given that certain interest rate hedging contracts will be expiring in July and August 2020, 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 2020, interest cost for approximately 68% (31 December 2019: 53%) of Fortune REIT's outstanding debts were hedged through interest rate swaps.

Net asset value per unit amounted to HK\$15.37 as at 30 June 2020, down 8.6% from HK\$16.81 at the end of 2019.

## PORTFOLIO VALUATION

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$40,327 million as at 30 June 2020, down by 5.8% from the valuation as at 31 December 2019. The drop was attributable to a lower rental projection adopted on the back of a softer retail environment. 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 lower valuation has resulted in a revaluation loss of HK\$2,516.1 million for the Reporting Period.

## PORTFOLIO HIGHLIGHTS

As at 30 June 2020, 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	8,343	96.6%	653
+WOO	665,244	8,187	95.1%	622
Ma On Shan Plaza	310,084	5,817	88.7%	290
Metro Town	180,822	3,698	97.2%	74
Fortune Metropolis	332,168	2,642	92.5%	179
Belvedere Square	276,862	2,576	93.5%	329
Laguna Plaza	163,203	2,522	98.7%	150
Waldorf Avenue	80,842	1,787	99.3%	73
Caribbean Square	63,018	1,178	100%	117
Jubilee Square	170,616	952	95.4%	97
Smartland	123,544	817	96.0%	67
Tsing Yi Square	78,836	811	96.6%	27
Centre de Laguna	43,000	338	98.5%	N.A
Hampton Loft	74,734	316	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>40,327</b>	<b>95.0%</b>	<b>2,713</b>

## BUSINESS REVIEW

The first half of 2020 marked a particularly challenging time for the Hong Kong economy. The retail market was hard-hit by unprecedented events in rapid succession, resulting in a wide and deep impact on the sector as a whole. In 2019, the retail market recorded its worst performance in over a decade due to a softened economy as well as prolonged local social incidents since June. Total retail sales value decreased by 20.0% year-on-year for the second half of 2019. The revival of consumer sentiment in December 2019 was short-lived as the market saw further deterioration upon the outbreak of COVID-19 pandemic in early 2020. For the first five months of 2020, retail sales value recorded a significant drop of 34.8% year-on-year.

Fortune Malls have a major focus on the non-discretionary trades. More than 58% of monthly rental comes from supermarkets, food and beverages (“**F&B**”) as well as services and education trades. In spite of this, the portfolio was not immune to the current downturn. Travel restrictions and social distancing measures seriously affected people’s daily lives and our tenants’ businesses to varying degrees. Footfall at our malls were down by some 20% during February to April 2020 when most people took a cautious approach and avoided going out. As a result, F&B and general retail tenants were the first to suffer an instant impact. As schools have been suspended since late January 2020, many education centres in our malls also had no choice but to be temporarily closed for business from February 2020 onwards. In addition, cinema, game centres and beauty salons were ordered to close in April 2020 as the government tightened social distancing measures. By contrast, supermarkets and household products have been the bright spots and the only categories registering sales growth.

The wellbeing of our employees, tenants and customers is our top priority and we have taken a wide range of health and safety precautionary measures at Fortune Malls to mitigate the impact of the pandemic. To stimulate sales and support our tenants amidst such a difficult time, we have launched a series of marketing promotions including gifts and cash coupon redemptions as well as promotions for the F&B tenants’ takeaway business via Fortune Malls’ social media platforms.

During the Reporting Period, Fortune REIT’s operating performance was adversely affected by the weak retail market in Hong Kong. Leasing momentum has been generally slow with enquiries for new lettings particularly quiet. Retailers are generally adopting a cautious stance to ride through the pandemic and recalibrate their expectations moving forward. In an effort to counter the dampened economic environment and to ensure financial stability during these challenging times, we have been focusing on retaining existing tenants as we strived for a balance between rental reversion and occupancy. As such, tenant retention remained strong at 77% for the Reporting Period while portfolio occupancy stood at a healthy level of 95% as at 30 June 2020. Newly committed rents were inevitably lower on average as the portfolio concluded the Reporting Period with a negative rental reversion for the first time. We believe a high occupancy will anchor our financial stability and we will maintain a flexible leasing strategy towards the expiring leases (approximately 27% of total GRA) in the second half of 2020.

## Enhancement Initiatives

For Fortune Malls to remain competitive and relevant in the marketplace, we always look to sharpen our edge in providing a pleasant shopping experience for shoppers and a sustainable business platform for tenants. As our latest initiative, we successfully launched the Fortune Malls APP in June 2020. The APP is our first step to enhance customer experience by serving them online-to-offline in a complementary manner. It integrates not only all 16 Fortune Malls in Hong Kong but also features the loyalty programme, Fortune+ membership scheme, where members can convert spending into auspicious rewards. It is encouraging to see the positive results so far and we are hopeful that the APP will drive more businesses and footfall to Fortune Malls.

In addition, further to the successful asset enhancement initiatives completion at +WOO Phase 1 in 2019, we are currently planning for the renovation at +WOO Phase 2, aiming to further strengthen +WOO's position as the leading one-stop leisure and shopping destination in Tin Shui Wai.

## OUTLOOK

The COVID-19 pandemic has dealt a blow to the global economy. Recently, many countries have been loosening measures of restriction as they started resuming business and social activities. Yet, economic recovery may take some time to gather momentum. Looking ahead, the lingering risks of a pandemic resurgence, geopolitical tensions and trade protectionism will continue to impose downside risks to the global economy. Nonetheless, many governments around the globe are keeping up their efforts in stimulus measures to support their economies. As the Federal Funds rate is expected to remain near zero in the foreseeable future, the low interest rate environment in Hong Kong is likely to extend further.

After the prolonged local social incidents since June 2019, Hong Kong is experiencing a second major setback from the pandemic. The economy has fallen into a deep recession where GDP decreased by 8.9% year-on-year for the first quarter of 2020, with private consumption dropping by 10.1%. The unemployment rate surged to a 15-year high of 6.2% in June 2020. The government has rolled out relief measures of unprecedented scale to preserve economic vitality. Given the austere labour market conditions in Hong Kong and the travel restrictions in place, retail rents will continue to come under pressure in the near future due to a much weaker economy.

Fortune REIT takes pride in its resilience and growth track record for more than a decade. Regardless of the near-term challenges, we remain focused to safeguard the long-term value for Unitholders through proactive asset management, effective cost control, robust balance sheet management and prudent acquisitions. We remain cautiously optimistic on the long-term prospect of Fortune Malls and are well poised to embark on opportunities when they arise.

## EMPLOYEES

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

## NEW UNITS ISSUED

As at 30 June 2020, the total number of issued units of Fortune REIT was 1,945,863,309. As compared with the position as at 31 December 2019, a total of 8,321,083 new units were issued during the Reporting Period in the following manner:

- On 3 January 2020, 3,574,231 new units were issued to the Manager at the price of HK\$9.059 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$32.4 million payable by Fortune REIT for the period from 1 October 2019 to 31 December 2019.
- On 1 April 2020, 4,746,852 new units were issued to the Manager at the price of HK\$6.747 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 January 2020 to 31 March 2020.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

## CORPORATE GOVERNANCE

With the objective 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. 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 Period.

## RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the interim distribution, the record date will be on Tuesday, 11 August 2020. In order to qualify for the interim 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 Tuesday, 11 August 2020. The payment of interim distribution will be made to unitholders on Friday, 18 September 2020.

## 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 2020.

## ISSUANCE OF 2020 INTERIM REPORT

The 2020 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 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, 24 July 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.*

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

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	5	951,822	974,274
Property operating expenses	6	<u>(211,412)</u>	<u>(202,351)</u>
<b>Net property income before manager's performance fee</b>		<b>740,410</b>	<b>771,923</b>
Manager's performance fee		<u>(22,215)</u>	<u>(23,175)</u>
<b>Net property income</b>		<b>718,195</b>	<b>748,748</b>
Manager's base fee		(62,189)	(63,026)
Foreign currency exchange gain, net		18	37
Interest income		98	645
Trust expenses		(8,441)	(11,272)
Change in fair value of investment properties	11	(2,516,123)	641,331
Finance costs	7	<u>(292,290)</u>	<u>(181,407)</u>
<b>(Loss)/profit before taxation and transactions with unitholders</b>	8	<b>(2,160,732)</b>	<b>1,135,056</b>
Income tax expense	9	<u>(106,715)</u>	<u>(113,301)</u>
<b>(Loss)/profit for the period, before transactions with unitholders</b>		<b>(2,267,447)</b>	<b>1,021,755</b>
Distributions to unitholders		<u>(440,745)</u>	<u>(505,449)</u>
<b>Net comprehensive (expense)/income for the period</b>		<b><u>(2,708,192)</u></b>	<b><u>516,306</u></b>
Basic (loss)/earnings per unit (HK cents)	10	<u>(116.49)</u>	<u>52.90</u>

# Distribution Statement

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<b>(Loss)/profit for the period, before transactions with unitholders</b>		<b>(2,267,447)</b>	<b>1,021,755</b>
<b>Adjustments:</b>			
Manager's base fee		62,189	63,026
Change in fair value of investment properties		2,516,123	(641,331)
Change in fair value of derivative financial instruments		152,549	53,010
Non-cash finance costs		12,082	-
Deferred tax		14,221	-
Foreign currency exchange gain		-	(37)
Other non-tax deductible trust expenses		-	9,026
<b>Income available for distribution</b>	(i)	<b>489,717</b>	<b>505,449</b>
Percentage of distributable to unitholders		90%	100%
<b>Distribution to unitholders</b>	(ii)	<b>440,745</b>	<b>505,449</b>
<b>Distribution per unit (HK cents)</b>	(iii)	<b>22.60</b>	<b>26.13</b>

## Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, not less than 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 Trust Deed.
- (ii) The distribution to unitholders amount of HK\$440.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$505.4 million), representing a payout ratio of 90% (30 June 2019: 100%) of Fortune REIT's income available for distribution of HK\$489.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$505.4 million).
- (iii) The distribution per unit of 22.60 HK cents for the six months ended 30 June 2020 was calculated based on the interim distribution to unitholders amount of HK\$440.7 million over 1,950,177,768 units, representing issued units as at 30 June 2020 of 1,945,863,309 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 2020 of 4,314,459 units.

The distribution per units 26.13 HK cents for the six months ended 30 June 2019 is calculated based on the interim distribution to unitholders amount 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.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	40,327,000	42,820,000
Derivative financial instruments		-	1,327
<b>Total non-current assets</b>		<b>40,327,000</b>	<b>42,821,327</b>
<b>Current assets</b>			
Trade and other receivables	12	91,214	85,496
Bank balances and cash		226,531	136,375
Derivative financial instruments		-	6,291
<b>Total current assets</b>		<b>317,745</b>	<b>228,162</b>
<b>Total assets</b>		<b>40,644,745</b>	<b>43,049,489</b>
<b>Non-current liabilities</b>			
Derivative financial instruments		143,430	13,684
Borrowings	13	4,985,500	4,979,800
Deferred tax liabilities		514,992	500,771
<b>Total non-current liabilities</b>		<b>5,643,922</b>	<b>5,494,255</b>
<b>Current liabilities</b>			
Trade and other payables	14	702,946	750,586
Derivative financial instruments		15,185	-
Borrowings	13	3,781,690	3,499,379
Distribution payable		440,745	488,314
Provision for taxation		82,140	192,835
<b>Total current liabilities</b>		<b>5,022,706</b>	<b>4,931,114</b>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>10,666,628</b>	<b>10,425,369</b>
<b>Net assets attributable to unitholders</b>		<b>29,978,117</b>	<b>32,624,120</b>
<b>Units in issue and to be issued ('000)</b>	15	<b>1,950,178</b>	<b>1,941,116</b>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	16	<b>15.37</b>	<b>16.81</b>

## Notes

### (1) General

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and listed on The Stock Exchange of Hong Kong Limited (“**SEHK**”). Fortune REIT is governed by the REIT Code and the Trust Deed made between ARA Asset Management (Fortune) Limited (the “**Manager**”) and HSBC Institutional Trust Services (Asia) Limited (the “**Trustee**”).

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” as well as 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 headroom of the fair value of investment properties, internal financial resources of the Group and presently available undrawn banking facilities together with the ongoing negotiation with banks to obtain new banking facilities 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 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, as appropriate.

Other than additional 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 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

### **Application of amendments to IFRSs**

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by International Accounting Standards Board, for the first time, which are pertinent to the Group and is mandatorily effective for annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements.

Amendments to IAS 1 and IAS 8

Definition of Material

The application of the Amendments to References to the Concept Framework in IFRS Standards and amendments to IFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior period and/or on the 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 2019: 16) properties as at 30 June 2020 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) are the measures 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>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue arising from operating lease:		
Fixed	777,113	791,492
Variable	1,542	3,481
Charge-out collections	122,718	121,466
Car park revenue	49,935	57,188
Other income	514	647
	<u>951,822</u>	<u>974,274</u>

**(6) Property Operating Expenses**

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Advertising and promotion	10,131	6,733
Building management expenses	110,498	102,543
Car park operating expenses	15,378	15,682
Government rents and rates	5,048	6,724
Leasing commission and marketing services fee	8,614	16,631
Legal and other professional fees	4,370	3,351
Property manager fee	23,403	23,868
Utilities	19,240	19,257
Others	14,730	7,562
	<u>211,412</u>	<u>202,351</u>

**(7) Finance costs**

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on bank borrowings	127,704	120,287
Amortisation of front end fees	9,011	9,392
Commitment fee	243	868
Interest rate swaps expenses/(income) realised	<u>2,783</u>	<u>(2,150)</u>
	139,741	128,397
Change in fair value of derivative financial instruments	<u>152,549</u>	<u>53,010</u>
	<u>292,290</u>	<u>181,407</u>

**(8) (Loss)/profit before taxation and transactions with unitholders**

(Loss)/profit before taxation and transactions with unitholders is arrived at after charging:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,464	1,464
Fees to internal auditor	175	175
Allowance for credit losses	6,163	-
Valuation fees (paid to principal valuer)	<u>154</u>	<u>152</u>

**(9) Income tax expense**

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax:		
- Hong Kong	92,494	100,134
Deferred taxation	14,221	13,167
	<u>106,715</u>	<u>113,301</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2019: 16.5%).

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation 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.

**(10) (Loss)/earnings per unit**

Basic loss per unit is calculated by dividing the loss for the six months ended 30 June 2020, before transactions with unitholders of HK\$2,267.4 million by the weighted average of 1,946,510,986 units outstanding during the period.

Basic earnings per unit is calculated by dividing the profit for the six months ended 30 June 2019, before transactions with unitholders of HK\$1,021.8 million by the weighted average of 1,931,479,666 units.

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

**(11) Investment properties**

	<i>For the six months ended 30 June 2020</i>	<i>For the year ended 31 December 2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Fair Value</b>		
At beginning of the period/year	42,820,000	42,000,000
During the period/year:		
Capital expenditure incurred in upgrading investment properties	23,123	157,409
Change in fair value of investment properties	(2,516,123)	662,591
At end of the period/year	<u>40,327,000</u>	<u>42,820,000</u>

**(12) Trade and other receivables**

	<i>30 June 2020 HK\$'000 (Unaudited)</i>	<i>31 December 2019 HK\$'000 (Audited)</i>
Trade receivables	62,745	42,881
Less: Allowance for credit losses	(6,163)	-
	<u>56,582</u>	<u>42,881</u>
Other receivables and prepayments		
Security deposits	25,666	25,671
Other receivables	7,103	13,620
Prepayments	1,863	3,324
	<u>34,632</u>	<u>42,615</u>
	<u>91,214</u>	<u>85,496</u>

The following is an analysis of trade receivables (net of allowance for credit losses) by age, presented based on the invoice date, net of allowance for credit losses.

	<i>30 June 2020 HK\$'000 (Unaudited)</i>	<i>31 December 2019 HK\$'000 (Audited)</i>
0 - 30 days	44,611	40,554
31 - 90 days	11,971	2,327
	<u>56,582</u>	<u>42,881</u>

**(13) Borrowings**

	<i>30 June 2020 HK\$'000 (Unaudited)</i>	<i>31 December 2019 HK\$'000 (Audited)</i>
Secured term loans	2,000,000	2,000,000
Unsecured term loans	6,200,000	6,200,000
Unsecured revolving loans	585,000	306,000
	<u>8,785,000</u>	<u>8,506,000</u>
Less: unamortised front end fees	(17,810)	(26,821)
	<u>8,767,190</u>	<u>8,479,179</u>
Carrying amount repayable:		
Within one year	3,781,690	3,499,379
More than one year, but not more than two years	4,985,500	3,785,000
More than two years, but not more than five years	-	1,194,800
	<u>8,767,190</u>	<u>8,479,179</u>
Less: Amount due within one year shown under current liabilities	(3,781,690)	(3,499,379)
	<u>4,985,500</u>	<u>4,979,800</u>

**(14) Trade and other payables**

	<i>30 June 2020 HK\$'000 (Unaudited)</i>	<i>31 December 2019 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits	483,009	505,062
Rental received in advance	32,052	27,931
	<u>515,061</u>	<u>532,993</u>
Other payables		
Trustee's fee	1,028	1,091
Manager's performance fees	7,769	7,639
Other expenses	171,308	201,773
Interest payable	2,212	86
Others	5,568	7,004
	<u>187,885</u>	<u>217,593</u>
	<u>702,946</u>	<u>750,586</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\$254.9 million (31 December 2019: HK\$266.5 million) as at 30 June 2020.

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

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2019	1,927,905	8,113,501
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>
Issue of new units during the year:		
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>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2020	4,747	32,027
Balance in issue as at 30 June 2020	<u>1,945,863</u>	<u>8,273,242</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2020	4,315	30,162
Balance as at 30 June 2020	<u>1,950,178</u>	<u>8,303,404</u>

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

Net asset value per unit as at 30 June 2020 is calculated based on the net assets attributable to unitholders of the Group of HK\$29,978.1 million (31 December 2019: HK\$32,624.1 million) and the total number of 1,950,177,768 units (31 December 2019: 1,941,116,457 units) in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 30 June 2020, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$4,705.0 million (31 December 2019: HK\$4,703.0 million).

As at 30 June 2020, the Group's total assets less current liabilities amounted to HK\$35,622.0 million (31 December 2019: HK\$38,118.4 million).