

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 audited results of Fortune REIT for the year ended 31 December 2020 (the “**Reporting Year**” or “**FY2020**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2020	Year ended 31 December 2019	% change
Revenue (HK\$ million)	1,843.8	1,959.7	-5.9%
Net property income (HK\$ million)	1,376.1	1,480.9	-7.1%
Income available for distribution (HK\$ million)	970.4	993.8	-2.4%
Distribution to unitholders (HK\$ million)	921.9	993.8	-7.2%
Distribution per unit (“ DPU ”) (HK cents)	47.16	51.28	-8.0%
	As at 31 December 2020	As at 31 December 2019	% change
Net asset value per unit (HK\$)	14.62	16.81	-13.0%
Property valuation (HK\$ million)	39,075	42,820	-8.7%
Gearing ratio ^[1]	22.4%	19.8%	+2.6%
Cost-to-revenue ratio	23.1%	22.1%	+1.0%

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

Amid the disruptions by COVID-19 to Fortune REIT’s portfolio of retail properties, revenue was down by 5.9% year-on-year to HK\$1,843.8 million (2019: HK\$1,959.7 million) for the financial year ended 31 December 2020. This was attributable to negative rental reversions, lower carpark income and certain rental concession granted to tenants.

Total property operating expenses (excluding the Manager’s performance fee) decreased by 1.8% year-on-year to HK\$425.1 million (2019: HK\$433.0 million), due to lower leasing commissions and utility costs, but partly offset by higher advertising and promotion expenses and an allowance for credit losses. As a result, net property income decreased by 7.1% year-on-year to HK\$1,376.1 million (2019: HK\$1,480.9 million), while cost-to-revenue ratio was 23.1% for the Reporting Year.

Finance costs (excluding change in fair value of derivative financial instruments) decreased by 7.9% year-on-year to HK\$245.8 million (2019: HK\$266.9 million), attributable to lower HIBOR during the second half of 2020. Effective borrowing cost for the Reporting Year was 2.80% (2019: 3.12%).

Income available for distribution for the Reporting Year was HK\$970.4 million (2019: HK\$993.8 million), representing a year-on-year decrease of 2.4%. With a 95% distribution payout ratio for the Reporting Year, the DPU amounted to 47.16 HK cents (2019: 51.28 HK cents), representing a yield of 6.4% based on the closing unit price of HK\$7.39 as at 31 December 2020.

The final DPU of 24.56 HK cents for the year ended 31 December 2020 will be paid on 18 March 2021 to Unitholders on the registers of Unitholders of Fortune REIT as at 24 February 2021.

Capital Management

As at 31 December 2020, Fortune REIT's total committed loan facilities amounted to HK\$9,200 million (2019: HK\$8,900 million). Gearing ratio increased to 22.4% (2019: 19.8%), mainly due to lower property valuations. Gross liability as a percentage of its gross assets increased to 27.2% as at 31 December 2020 (2019: 24.2%).

In October 2020, Fortune REIT secured new loans amounted to HK\$4,000 million for the purpose of refinancing and other general corporate use. The new facilities consist of (i) a HK\$1,500 million three-year term loan; (ii) a HK\$1,500 million five-year term loan; and (iii) a HK\$1,000 million five-year sustainability-linked term loan. The refinancing not only extended the average maturity of the loan portfolio, the remaining secured property also became unsecured, which led to greater financial flexibility going forward.

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements. As at 31 December 2020, available liquidity stood at HK\$877.2 million (2019: HK\$530.4 million), comprising committed but undrawn facilities of HK\$700.0 million (2019: HK\$394.0 million) and cash and deposit of HK\$177.2 million (2019: HK\$136.4 million).

As at 31 December 2020, interest cost for approximately 50% (2019: 53%) of Fortune REIT's outstanding debts was hedged through interest rate swaps.

Net asset value per unit amounted to HK\$14.62 as at 31 December 2020, down 13.0% from HK\$16.81 at the end of 2019.

Portfolio Valuation

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$39,075 million as at 31 December 2020, down by 8.7% from the valuation as at 31 December 2019. This drop was attributable to 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 an income capitalization approach and cross-referenced with direct comparison approach. The average capitalization rate remained the same at 4.3%. The lower valuation has resulted in a revaluation loss of HK\$3,799.9 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 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	8,087	98.1%	653
+WOO	665,244	7,880	93.2%	622
Ma On Shan Plaza	310,084	5,622	97.8%	290
Metro Town	180,822	3,585	99.6%	74
Fortune Metropolis	332,168	2,544	88.7%	179
Belvedere Square	276,862	2,514	91.4%	329
Laguna Plaza	163,203	2,455	100%	150
Waldorf Avenue	80,842	1,738	99.0%	73
Caribbean Square	63,018	1,150	100%	117
Jubilee Square	170,616	926	100%	97
Smartland	123,544	795	98.9%	67
Tsing Yi Square	78,836	790	96.6%	27
Centre de Laguna	43,000	330	99.0%	N.A
Hampton Loft	74,734	316	100%	35
Lido Avenue	9,836	209	100%	N.A
Rhine Avenue	14,604	134	97.6%	N.A
Total / Overall average	3,001,882	39,075	95.8%	2,713

BUSINESS REVIEW

The pandemic outbreak since early 2020 presented some unprecedented challenges for the Hong Kong economy. Hong Kong has maintained strict border control with different levels of social distancing measures locally for most part of the year, resulted in drastic decline in tourist arrivals and dampened domestic consumption. In particular, Hong Kong total retail sales value for 2020 as a whole dropped by 24.3% year-on-year, with the supermarket category being the only bright spot registering a sales growth of 9.7% year-on-year.

Notwithstanding Fortune Malls' focus on providing day-to-day needs within the neighbourhood, social distancing measures led to lower footfall, which in turn has impacted our tenants' businesses to varying extent. Sectors such as restaurants, education operators, beauty parlours, fitness centers and entertainment venues were subject to mandatory social distancing restrictions, while tenants in retail sector suffered from weak demand in general. On the other hand, supermarkets, convenience stores and grocery stores as well as household and health products performed better and most of these tenants registered sales growth during the Reporting Year.

Amid the weak retail market, the Manager has focused on retaining quality tenants, striking a balance between rent and occupancy for a sustainable income. While negative rental reversion has been inevitable, portfolio occupancy remained stable throughout the year and stood at 95.8% as at 31 December 2020. A high tenant retention of 84% was recorded.

To support the businesses of our tenants, Fortune Malls launched various marketing campaigns and reward schemes to stimulate spending. These included cash coupons and gift redemptions to drive demands for takeaway at restaurants, entertainment centres, education centres and shops in general. The most notable one being the "Autumn Supreme Star Rewards", launched between October 2020 and December 2020, where shoppers could redeem cash coupons of up to 200% of their spending for a designated amount. These marketing initiatives drew favourable response and foot traffic to Fortune Malls.

Fortune Malls APP and loyalty program

The pandemic has reshaped our world more digitally and locally. We continue to maintain competitiveness in the marketplace by enhancing our digital presence and upgrading our malls to build customer loyalty and serve them better under the new normal.

The launch of Fortune Malls mobile APP in June 2020 proved to be timely and successful. The wide range offering of daily necessities and services at Fortune Malls has always attracted some good regular crowds and the APP aims to strengthen our core competencies by integrating information and promotional offers for shopping, dining and parking across all 16 malls. Moreover, the Fortune+ loyalty programme, where members can convert spending into auspicious rewards, has empowered us to push out effective promotional campaigns to our target customers. With the limitation of on-site marketing amid social distancing measures, we have run successful campaigns via the APP to drive business for shops, eateries and entertainment centers at Fortune Malls.

AEIs at +WOO Phase 2 to drive the next phase of growth

As we strive to grow, asset enhancement initiatives ("AEIs") will continue to be a major catalyst to drive growth from our portfolio. We are looking to extend the success of +WOO Phase 1 AEIs to Phase 2 in 2021. We have budgeted a capex of HK\$300 million for the project and rental downtime will be carefully managed by undertaking the project in phases. In addition to upgrading the shopping environment, we always look to delight customers and connect them with our brand value. +WOO Phase 1 has been the latest rejuvenation of the Fortune Malls brand showcasing not only new

excitements such as adorable mascot Woolu, but also friendly facilities catering for parents, kids and the disabled. We aim to elevate shoppers' experience in Phase 2 by connecting with our shoppers even closer via various means. +WOO is set to further release its potential as the leading shopping mall in one of Hong Kong's largest residential communities.

DRIVING A SUSTAINABLE BUSINESS

In 2020, Fortune REIT made progress on multiple fronts in driving a more sustainable business. On the operation side, we have implemented various digital initiatives including the Fortune Malls mobile APP. We will continue to refine our business to respond to customer needs and provide a favorable business environment for tenants.

As a mall operator, the health and safety of our workforce, customers, business partners and the entire community has always been Fortune REIT's priority. Since the beginning of the pandemic outbreak, we have been keeping abreast of the public health measures recommended by local health authorities and responded swiftly to put in the best practices at Fortune Malls. All frontline site staff are equipped with appropriate protective measures and have in place action plans for any emergency situations. In addition, a wide range of precautionary measures have been applied across Fortune Malls with frequent and thorough cleaning routines especially in areas with high-touch points. Where possible, sanitizers are offered to prompt frequent cleaning of hands while informative posters are widely displayed to remind the public of good hygiene practices.

Fortune REIT signed its maiden sustainability-linked loan in October 2020. This HK\$1,000 million 5-year term facility is structured to incorporate interest cost saving if certain predetermined environmental targets are met. It not only marks an important milestone towards green financing, but also demonstrates our strong commitment to integrating sustainability into our daily operations and achieving growth in a responsible manner.

OUTLOOK

Hong Kong has experienced a major setback from the pandemic, with GDP having contracted year-on-year for 6 consecutive quarters and private consumption dropping by 10.2% for the full year of 2020. However, local economy showed improving signs as the year-on-year decline in GDP narrowed visibly from 9.0% in the second quarter of 2020 to 3.6% and 3.0% in the third and fourth quarter of 2020 respectively. The pace and degree of Hong Kong retail market recovery will very much depend on whether the pandemic can be managed in an effective manner in the near future with the roll-out of COVID-19 vaccines.

Fortune REIT takes pride in its resilience and track record for growth, spanning more than a decade. Regardless of the near-term challenges, we remain focused on safeguarding the long-term value for Unitholders through proactive asset management, effective cost control, robust balance sheet management and prudent acquisitions.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2020, the total number of issued units of Fortune REIT was 1,954,817,025. As compared with the position as at 31 December 2019, a total of 17,274,799 new units were issued during the Reporting Year 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.
- On 10 July 2020, 4,314,459 new units were issued to the Manager at the price of HK\$6.991 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$30.2 million payable by Fortune REIT for the period from 1 April 2020 to 30 June 2020.
- On 6 October 2020, 4,639,257 new units were issued to the Manager at the price of HK\$6.573 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$30.5 million payable by Fortune REIT for the period from 1 July 2020 to 30 September 2020.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 3,000,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

With the 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 Year.

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the final distribution, the record date will be on Wednesday, 24 February 2021. 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 Wednesday, 24 February 2021. The payment of final distribution will be made to unitholders on Thursday, 18 March 2021.

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 2020.

ISSUANCE OF ANNUAL REPORT 2020

The 2020 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2021.

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 2021

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 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	1,843,824	1,959,697
Property operating expenses	6	<u>(425,123)</u>	<u>(432,994)</u>
Net property income before manager's performance fee		1,418,701	1,526,703
Manager's performance fee		<u>(42,566)</u>	<u>(45,846)</u>
Net property income		1,376,135	1,480,857
Manager's base fee		(122,230)	(127,714)
Foreign currency exchange loss, net		(78)	(111)
Interest income		159	1,613
Trust expenses	7	(14,477)	(23,566)
Change in fair value of investment properties	12	(3,799,917)	662,591
Finance costs	8	<u>(426,612)</u>	<u>(298,115)</u>
(Loss)/ profit before taxation and transactions with unitholders	9	(2,987,020)	1,695,555
Income tax expense	10	<u>(205,938)</u>	<u>(218,751)</u>
(Loss)/ profit for the year, before transactions with unitholders		(3,192,958)	1,476,804
Distributions to unitholders		<u>(921,890)</u>	<u>(993,763)</u>
Net comprehensive (expense)/ income for the year		<u>(4,114,848)</u>	<u>483,041</u>
Basic (loss)/ earnings per unit (HK cents)	11	<u>(163.66)</u>	<u>76.33</u>

Distribution Statement

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
(Loss)/ profit for the year, before transactions with unitholders		(3,192,958)	1,476,804
Adjustments:			
Manager's base fee		122,230	127,714
Change in fair value of investment properties		3,799,917	(662,591)
Change in fair value of derivative financial instruments		180,789	31,172
Non-cash finance costs		30,434	-
Deferred tax		29,999	-
Foreign currency exchange loss, net		-	111
Other non-tax deductible trust expenses		-	20,553
Income available for distribution	(i)	970,411	993,763
Distribution to unitholders			
Interim distribution		440,745	505,449
Final distribution		481,145	488,314
		921,890	993,763
Payout ratio	(ii)	95%	100%
Distribution per unit (HK cents)			
Interim distribution per unit	(iii)	22.60	26.13
Final distribution per unit	(iv)	24.56	25.15
		47.16	51.28

Notes:

- (i) 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.
- (ii) Distribution to Unitholders of HK\$921.9 million for the year ended 31 December 2020 (2019: HK\$993.8 million), represented a payout ratio of 95% (2019: 100%) of Fortune REIT's income available for distribution of HK\$970.4 million for the year ended 31 December 2020 (2019: HK\$993.8 million).
- (iii) The distribution per unit of 22.60 HK cents for the six months ended 30 June 2020 (six months ended 30 June 2019: 26.13 HK cents) was calculated based on the interim distribution to unitholders amount of HK\$440.7 million (six months ended 30 June 2019: HK\$505.4 million) over 1,950,177,768 units (30 June 2019: 1,933,977,332 units), represented issued units as at 30 June 2020 of 1,945,863,309 units (30 June 2019: 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 2020 of 4,314,459 units (second quarter of 2019: 2,989,332 units). Interim distribution was paid on 18 September 2020 (2019 interim distribution: 29 August 2019).

- (iv) The distribution per unit of 24.56 HK cents for the six months ended 31 December 2020 (six months ended 31 December 2019: 25.15 HK cents) is calculated based on the final distribution to unitholders amount of HK\$481.1 million (six months ended 31 December 2019: HK\$488.3 million) over 1,958,886,876 units (31 December 2019: 1,941,116,457 units), representing issued units as at 31 December 2020 of 1,954,817,025 units (31 December 2019: 1,937,542,226 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 2020 of 4,069,851 units (fourth quarter of 2019: 3,574,231 units). Final distribution will be paid on 18 March 2021 (2019 final distribution: 6 March 2020).

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	39,075,000	42,820,000
Derivative financial instruments		-	1,327
Total non-current assets		39,075,000	42,821,327
Current assets			
Trade and other receivables	13	84,094	85,496
Bank balances		177,167	136,375
Derivative financial instruments		-	6,291
Total current assets		261,261	228,162
Total assets		39,336,261	43,049,489
Non-current liabilities			
Derivative financial instruments		180,256	13,684
Borrowings	14	5,164,705	4,979,800
Deferred tax liabilities		530,770	500,771
Total non-current liabilities		5,875,731	5,494,255
Current liabilities			
Trade and other payables	15	717,317	750,586
Borrowings	14	3,594,667	3,499,379
Distribution payable		481,996	488,314
Derivative financial instruments		6,599	-
Provision for taxation		28,449	192,835
Total current liabilities		4,829,028	4,931,114
Total liabilities, excluding net assets attributable to unitholders		10,704,759	10,425,369
Net assets attributable to unitholders		28,631,502	32,624,120
Units in issue and to be issued ('000)	16	1,958,887	1,941,116
Net asset value per unit attributable to unitholders (HK\$)	17	14.62	16.81

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 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 “**IFRSs**”) 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 for obtaining additional banking facilities, internal financial resources of the Group and presently available undrawn banking facilities, 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 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 year, 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 consolidated financial statements.

Amendments to IAS 1 and IAS 8

Definition of Material

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior year and/or on the disclosures set out in the 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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020 ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³

¹Effective for annual periods beginning on or after 1 January 2021.

²Effective for annual periods beginning on or after 1 January 2022.

³Effective for annual periods beginning on or after 1 January 2023.

The Manager anticipates that the application of the above 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 (2019: 16) properties as at 31 December 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 properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Revenue arising from operating leases:		
Fixed	1,491,590	1,589,679
Variable	3,205	5,848
Charge-out collections	244,162	246,548
Car park revenue	102,088	113,519
Other income	2,779	4,103
	1,843,824	1,959,697

(6) Property operating expenses

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Advertising and promotion	21,335	18,308
Building management expenses	212,607	215,729
Car park operating expenses	30,405	31,504
Government rents and rates	12,644	12,988
Leasing commission and marketing services fee	26,977	34,425
Legal and other professional fees	10,557	7,036
Property management fee	44,927	47,989
Utilities	43,498	48,023
Others	22,173	16,992
	<u>425,123</u>	<u>432,994</u>

(7) Trust Expenses

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Trustee's fee	12,411	14,448
Other charges	2,066	9,118
	<u>14,477</u>	<u>23,566</u>

(8) Finance costs

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Interest expenses on bank borrowings	192,415	257,880
Amortisation of front-end fees	20,193	18,783
Commitment fee	1,126	1,471
Interest rate swaps expenses/ (income) realised	32,089	(11,191)
	<u>245,823</u>	<u>266,943</u>
Change in fair value of derivative financial instruments	180,789	31,172
	<u>426,612</u>	<u>298,115</u>

(9) (Loss)/ profit before taxation and transactions with unitholders

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

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Fees to external auditor		
- Audit services	1,580	1,592
- Non-audit services	1,379	1,337
Fees to internal auditor	350	450
Allowance for credit losses	5,996	-
Valuation fees (paid to principal valuer)	520	532
	<u>11,825</u>	<u>4,911</u>

(10) Income tax expense

	2020 HK\$'000	2019 HK\$'000
Current tax:		
- Hong Kong	175,939	190,127
- Singapore	-	22
- Over provision in prior years	-	(835)
	<u>175,939</u>	<u>189,314</u>
Deferred taxation:		
- Current year	29,999	29,480
- Over provision in prior years	-	(43)
	<u>29,999</u>	<u>29,437</u>
	<u>205,938</u>	<u>218,751</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2019: 16.5%) for the year ended 31 December 2020. Taxation arising in Singapore is calculated at 17% for the year ended 31 December 2019.

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.

(11) (Loss)/ earnings per unit

Basic (loss)/ earnings per unit is calculated by dividing the loss for the year, before transactions with unitholders of HK\$3,193.0 million (2019: profit of HK\$1,476.8 million) by the weighted average of 1,950,979,986 (2019: 1,934,837,017) units outstanding during the year.

No diluted (loss)/ 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

	2020 HK\$'000	2019 HK\$'000
Fair Value		
At beginning of year	42,820,000	42,000,000
During the year:		
Capital expenditure incurred in upgrading investment properties	54,917	157,409
Change in fair value of investment properties	(3,799,917)	662,591
At end of year	<u>39,075,000</u>	<u>42,820,000</u>

(13) Trade and other receivables

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Trade receivables	58,612	42,881
Less: allowance for credit losses	(5,996)	-
	<u>52,616</u>	<u>42,881</u>
Other receivables and prepayments		
Security deposits	25,666	25,671
Other receivables	1,986	13,620
Prepayments	3,826	3,324
	<u>31,478</u>	<u>42,615</u>
	<u><u>84,094</u></u>	<u><u>85,496</u></u>

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

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
0 - 30 days	44,386	40,554
31 - 90 days	8,230	2,327
	<u>52,616</u>	<u>42,881</u>

(14) Borrowings

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Secured term loans	-	2,000,000
Unsecured term loans	8,500,000	6,200,000
Unsecured revolving loans	300,000	306,000
	<u>8,800,000</u>	<u>8,506,000</u>
Less: unamortised front-end fees	(40,628)	(26,821)
	<u>8,759,372</u>	<u>8,479,179</u>
Carrying amount repayable:		
Within one year	3,594,667	3,499,379
More than one year, but not more than two years	1,197,200	3,785,000
More than two years, but not more than five years	3,967,505	1,194,800
	<u>8,759,372</u>	<u>8,479,179</u>
Less: Amount due within one year shown under current liabilities	(3,594,667)	(3,499,379)
	<u><u>5,164,705</u></u>	<u><u>4,979,800</u></u>

(15) Trade and other payables

	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Trade payables		
Tenants' deposits	477,712	505,062
Rental received in advance	50,602	27,931
	<u>528,314</u>	<u>532,993</u>
Other payables		
Trustee's fee	996	1,091
Manager's performance fee	6,108	7,639
Interest payable	9,382	86
Operating expenses	167,504	201,773
Others	5,013	7,004
	<u>189,003</u>	<u>217,593</u>
	<u>717,317</u>	<u>750,586</u>

Trade and other payables comprise 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\$263.4 million (2019: HK\$266.5 million) as at 31 December 2020.

(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 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 year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2020	13,701	92,683
Balance in issue as at 31 December 2020	<u>1,954,817</u>	<u>8,333,898</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2020	4,070	29,547
Balance as at 31 December 2020	<u>1,958,887</u>	<u>8,363,445</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\$28,631.5 million (2019: HK\$32,624.1 million) and the total number of 1,958,886,876 (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.

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

As at 31 December 2020, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$4,567.8 million (2019: HK\$4,703.0 million).

As at 31 December 2020, the Group's total assets less current liabilities amounted to HK\$34,507.2 million (2019: HK\$38,118.4 million).