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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 2016 AND CLOSURE OF REGISTER OF UNITHOLDERS

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by a trust deed ("Trust Deed") entered into on 4 July 2003 (as amended) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the "Manager"), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the "Trustee"). Fortune REIT is primary listed on The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

Fortune REIT holds a portfolio of 17 retail properties in Hong Kong, comprising approximately 3.18 million square feet ("Sq.ft.") of retail space and 2,713 car parking lots. The retail properties are Fortune City One, Fortune Kingswood, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Laguna Plaza, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi Square, Centre de Laguna, Hampton Loft, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of the Manager is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2016 (the "Reporting Period") as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2016	Six months ended 30 June 2015	% change
Revenue (HK\$ million)	979.1	922.6	+6.1%
Net property income (HK\$ million)	705.9	654.4	+7.9%
Cost-to-revenue ratio	25.7%	26.9%	-1.2%
Income available for distribution (HK\$ million)	470.0	440.3	+6.7%
Distribution per unit ("DPU") (HK cents)	24.78	23.38	+6.0%
	As at 30 Jun 2016	As at 31 Dec 2015	% change
Net asset value per unit (HK\$)	12.77	12.76	+0.1%
Property valuation (HK\$ million)	36,188	35,918	+0.8%
Gearing ratio / Aggregate leverage ¹	29.8%	30.1%	-0.3%

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 30 June 2016, there was no deferred payment.

DISTRIBUTION

Fortune REIT's distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (i) 100% of its tax exempt income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses; and (ii) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial year adjusted to eliminate the effects of certain adjustments in accordance with the Code on Real Estate Investment Trusts (the "REIT Code") published by the Securities and Futures Commission of Hong Kong ("SFC").

FINANCIAL REVIEW

For the six months ended 30 June 2016, Fortune REIT achieved a 6.1% year-on-year growth in revenue to HK\$979.1 million, thanks to the healthy rental reversion across the portfolio, as well as the asset enhancement initiatives ("AEIs") at Belvedere Square, which were completed in phases during 2015.

Operating expenses (excluding the Manager's performance fee) was HK\$251.3 million for the Reporting Period with the increase well-contained at 1.3% against the same period last year. As a result, net property income rose by 7.9% year-on-year to HK\$705.9 million with cost-to-revenue ratio improved to 25.7% (first half of 2015: 26.9%).

Borrowing costs was HK\$140.0 million for the Reporting Period, an increase of 8.6% compared with the first half of 2015, mainly attributed to the additional interest rate hedging entered in the third quarter of 2015. The average all-in cost of debt was 2.39%.

Income available for distribution for the Reporting Period amounted to HK\$470.0 million, marking a year-on-year growth of 6.7%. DPU for the Reporting Period was up by 6.0% year-on-year to 24.78 Hong Kong cents. Based on the closing unit price of HK\$9.25 as at 30 June 2016 in Hong Kong, the DPU implied an annualised distribution yield of 5.4%.

The interim DPU of 24.78 Hong Kong cents will be paid on 29 August 2016 to Unitholders registered in the registers of Unitholders of Fortune REIT as at 8 August 2016.

CAPITAL MANAGEMENT

Fortune REIT's financial position was strengthened during the Reporting Period. In March 2016, HK\$3,154.0 million of the existing facilities, which matured in April 2016, were successfully refinanced with two new 5-year term loan facilities (the "2016 Facilities"). The 2016 Facilities extended Fortune REIT's weighted average term to maturity of debt to 2.6 years with no refinancing needs until 2017.

As at 30 June 2016, Fortune REIT had committed loan facilities in the aggregate total of HK\$11,580 million. It closed the Reporting Period with a gearing ratio and an aggregate leverage of 29.8% (31 December 2015: 30.1%). Fortune REIT's gross liabilities as a percentage of gross assets maintained at 34.6% as at 30 June 2016 (31 December 2015: 34.3%). The net current liabilities as at 30 June 2016 were HK\$4,949.7 million, the majority of which comprised of the loan facilities of HK\$3,958.7 million due in April 2017.

The existing facilities are secured over Fortune REIT's 8 investment properties, which carried an aggregate fair value of HK\$21,998.0 million as at 30 June 2016. The Trustee has provided guarantee for all the facilities.

As at 30 June 2016, the interest cost for approximately 66% (31 December 2015: 68%) of Fortune REIT's outstanding debt was hedged through interest rate swaps and caps. The Manager will continue to closely monitor interest rate movements and regularly review Fortune REIT's hedging profile.

PORTFOLIO VALUATION

The valuation of Fortune REIT's 17 retail properties was appraised at HK\$36,188.0 million as at 30 June 2016 by Savills Valuation and Professional Services Limited, an independent valuer. This represented an increase of 2.7% and 0.8% respectively from the valuation of HK\$35,238.0 million as at 30 June 2015 and HK\$35,918.0 million as at 31 December 2015. The capitalisation rates adopted for the valuation remain unchanged. The higher valuation resulted in a revaluation gain of HK\$223.4 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2016, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.18 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	7,422	98.5%	653
Fortune Kingswood	665,244	6,843	98.0%	622
Ma On Shan Plaza	310,084	5,130	99.9%	290
Metro Town	180,822	3,371	99.7%	74
Fortune Metropolis	332,168	2,410	97.4%	179
Laguna Plaza	163,203	2,258	98.7%	150
Belvedere Square	276,862	2,160	100.0%	329
Waldorf Avenue	80,842	1,594	100.0%	73
Caribbean Square	63,018	986	100.0%	117
Provident Square ¹	180,238	982	54.2%	N.A
Jubilee Square	170,616	872	99.6%	97
Smartland	123,544	700	99.7%	67
Tsing Yi Square	78,836	616	100.0%	27
Centre de Laguna	43,000	275	100.0%	N.A
Hampton Loft	74,734	268	100.0%	35
Lido Avenue	9,836	186	100.0%	N.A
Rhine Avenue	14,604	115	100.0%	N.A
Total / Overall average	3,182,120	36,188	96.4%	2,713

Note:

1. Provident Square is undergoing AElS (see Asset Enhancement Initiatives section below). As at the date of this announcement, the committed occupancy of Provident Square is 81.6%.

OPERATIONS REVIEW

Fortune REIT's continued success is attributed to its portfolio of quality necessity shopping malls, which mainly cater for the domestic consumption demand in Hong Kong. During the Reporting Period, Fortune REIT's asset portfolio continued to register steady operating performance, once again demonstrating its resilience amid market challenges.

Despite the frictional vacancy at Provident Square due to its AEl's project, portfolio occupancy was maintained at a high level of 96.4% as at 30 June 2016. A rental reversion of 13.3% was recorded for renewals during the first half of 2016. Portfolio passing rent went up by 7.8% year-on-year to HK\$41.4 per Sq.ft.. Retention rate of tenants in the first half of 2016 was approximately 85%, reflecting the effectiveness of Fortune REIT's proactive leasing management as well as its strong relationship with tenants.

Fortune Malls have a well-diversified trade mix with a strong focus on daily necessities. Tenants in the non-discretionary retail sectors such as food and beverages, supermarkets as well as services and education altogether accounted for approximately 60% of GRA. The resilient nature of these trades has allowed Fortune REIT to perform steadily during economic downturns in the past.

ASSET ENHANCEMENT INITIATIVES

For Fortune REIT's malls to deliver sustainable performance, it is important that they continue to meet the needs and aspirations of the communities they operate in. During the Reporting Period, the Manager has commenced its AEl's project at Provident Square, with an aim to strengthen the business environment for tenants and widen the range of offerings to residents and shoppers.

Involving a GRA of 78,280 Sq.ft. at the basement floor, the project includes reconfiguration of a large supermarket space into smaller units to cater for the demand from food and beverage outlets, household products as well as education operators. The atrium will be rejuvenated with new ceiling and skyline features, lightings and floor finishes. Other mall amenities such as kids' toilets and baby nursing room will be added to better serve family shoppers. The AEl's is expected to be completed by the third quarter of 2016.

Looking ahead, the Manager plans to embark on the major AEl's at Fortune Kingswood, with an objective to reposition as a regional shopping and entertainment attraction to a wider spectrum of shoppers from beyond its vicinity.

OUTLOOK

The Hong Kong economy slowed further in the first quarter of 2016, growing by 0.8% over a year earlier. This compared to the 1.9% growth in the preceding quarter. While the domestic segment exhibited remarkable resilience last year, the prolonged weakness in the external sector, fragile global economic environment and recent asset market consolidation, have all added woes to local consumption demand. Private consumption expenditure slowed visibly from the preceding quarter, growing only mildly by 1.1% year-on-year in the first quarter of 2016. This, together with the continued slowdown in inbound tourism, posed a severe drag on retail sales. For the first five months of 2016, the value of total retail sales in Hong Kong registered a decrease of 10.8% year-on-year. The local labour market, however, has stayed largely stable, notwithstanding the slowdown in the overall economy. The Manager will remain watchful of the rising external risks, including the new wave of uncertainties caused by the United Kingdom's vote to leave the European Union.

Fortune REIT's portfolio of neighborhood malls, focusing on non-discretionary local consumption, coupled with our strong expertise in asset management and a robust capital management approach, has enabled us to achieve sound financial performance and deliver steady returns through different economic cycles. The Manager is fully dedicated in optimizing the portfolio performance meanwhile prudently identifying suitable investment opportunities for Fortune REIT's long-term sustainable growth.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2016, the total number of issued units of Fortune REIT was 1,893,151,293. As compared with the position as at 31 December 2015, a total of 6,779,251 new units were issued during the Reporting Period in the following manner:

- On 5 January 2016, 3,527,261 new units were issued to the Manager at the price of HK\$7.7000 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.2 million payable by Fortune REIT for the period from 1 October 2015 to 31 December 2015.
- On 1 April 2016, 3,251,990 new units were issued to the Manager at the price of HK\$8.2610 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$26.9 million payable by Fortune REIT for the period from 1 January 2016 to 31 March 2016.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 14,550,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Fortune REIT in a transparent manner and with built-in checks and balances. The Manager has adopted a compliance manual (the “Compliance Manual”) which sets out the key processes, systems, measures and certain corporate governance policies and procedures applicable for governing the management and operation of Fortune REIT and for compliance with the applicable Hong Kong regulations and legislation.

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

The Manager confirms that it has in material terms complied with the provisions of the Compliance Manual and has adhered to the principles and guidelines set out in the CG Code and the Singapore Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Period.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Register will be closed on Monday, 8 August 2016, during which day no transfer of units on the Register will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with (a) the Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Friday, 5 August 2016 or (b) the Singapore unit registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore unitholders) not later than 5:00 p.m. on Friday, 5 August 2016. The payment of interim distribution will be made to unitholders on Monday, 29 August 2016.

SINGAPORE INCOME TAX ON FORTUNE REIT DISTRIBUTION

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

REVIEW OF INTERIM RESULTS

The unaudited interim results of Fortune REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager. The unaudited interim results have also been reviewed by Fortune REIT’s auditors in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2016.

ISSUANCE OF 2016 INTERIM REPORT

The 2016 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 2016.

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, 25 July 2016

The Directors of the Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Chiu Yu, Justina and Mr. Ang Meng Huat, Anthony as Executive Directors; Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David as Independent Non-executive Directors.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	5	979,064	922,592
Property operating expenses		<u>(251,263)</u>	<u>(247,926)</u>
Net property income (before manager's performance fee)		727,801	674,666
Manager's performance fee		<u>(21,876)</u>	<u>(20,303)</u>
Net property income		705,925	654,363
Manager's base fee		(53,931)	(51,979)
Foreign currency exchange gain/(loss)		282	(126)
Interest income		1,405	2,406
Trust expenses	6	(9,813)	(32,777)
Change in fair value of investment properties		223,368	992,020
Change in fair value of derivative financial instruments		(100,663)	(36,511)
Gain on disposal of a property company		-	218,598
Borrowing costs	7	<u>(139,958)</u>	<u>(128,859)</u>
Profit before taxation and transactions with unitholders	8	626,615	1,617,135
Income tax expense	9	<u>(105,604)</u>	<u>(98,120)</u>
Profit for the period, before transactions with unitholders		521,011	1,519,015
Distributions to unitholders		<u>(470,008)</u>	<u>(440,258)</u>
Profit for the period, after transactions with unitholders		51,003	1,078,757
Other comprehensive income - item that may be reclassified subsequently to profit or loss			
Net gain on derivative financial instruments under cash flow hedge		<u>7,041</u>	<u>11,131</u>
Total comprehensive income for the period		<u>58,044</u>	<u>1,089,888</u>
Income available for distribution to unitholders		<u>470,008</u>	<u>440,258</u>
Basic earnings per unit (HK cents)	10	<u>27.51</u>	<u>80.80</u>

Distribution Statement

For the six months ended 30 June 2016

		<i>Six months ended 30 June</i>	
		<i>2016</i>	<i>2015</i>
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period, before transactions with unitholders		521,011	1,519,015
Adjustments:			
Manager's base fee		53,931	51,979
Acquisition fee		-	19,185
Change in fair value of investment properties		(223,368)	(992,020)
Change in fair value of derivative financial instruments		100,663	36,511
Gain on disposal of a property company		-	(218,598)
Non-tax deductible front end fees		10,676	14,011
Foreign currency exchange (gain)/loss		(282)	126
Other non-tax deductible trust expenses		7,377	10,049
Income available for distribution	(i)	470,008	440,258
Distribution per unit (HK cents)	(ii)	24.78	23.38

Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the REIT Code issued by the SFC.
- (ii) The distribution per unit of 24.78 HK cents for the six months ended 30 June 2016 (six months ended 30 June 2015: 23.38 HK cents) is calculated based on the income available for distribution for the period of HK\$470.0 million (six months ended 30 June 2015: HK\$440.3 million) over 1,896,137,133 units (30 June 2015: 1,882,805,728 units), representing issued units as at 30 June 2016 of 1,893,151,293 units (30 June 2015: 1,879,418,796 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 2016 of 2,985,840 units (second quarter of 2015: 3,386,932 units).

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	36,188,000	35,918,000
Derivative financial instruments		-	5,884
Total non-current assets		36,188,000	35,923,884
Current assets			
Trade and other receivables	12	69,963	73,441
Bank balances and cash		771,481	710,339
Total current assets		841,444	783,780
Total assets		37,029,444	36,707,664
Non-current liabilities			
Derivative financial instruments		145,870	52,837
Borrowings	13	6,463,757	7,228,970
Deferred tax liabilities		410,395	394,867
Total non-current liabilities		7,020,022	7,676,674
Current liabilities			
Trade and other payables	14	713,411	673,984
Borrowings	13	4,496,672	3,780,054
Derivative financial instruments		1,177	6,472
Distribution payable		470,008	444,312
Provision for taxation		109,855	19,844
Total current liabilities		5,791,123	4,924,666
Total liabilities, excluding net assets attributable to unitholders		12,811,145	12,601,340
Net assets attributable to unitholders		24,218,299	24,106,324
Units in issue and to be issued ('000)	15	1,896,137	1,889,899
Net asset value per unit attributable to unitholders (HK\$)	16	12.77	12.76

Notes

(1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended) between ARA Asset Management (Fortune) Limited, as the Manager of Fortune REIT, and HSBC Institutional Trust Services (Singapore) Limited, as the Trustee of Fortune REIT. Fortune REIT is primary listed on The Stock Exchange of Hong Kong Limited and secondary listed on the Singapore Exchange Securities Trading Limited.

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

(2) Basis of preparation

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK and with International Accounting Standard 34 “Interim Financial Reporting” and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

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

(3) Principal accounting policies

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

The accounting policies used in these condensed consolidated financial statements are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015 except as described below.

In the current period, the Group has applied the following new and revised International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after 1 January 2016:

Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests and Joint Operations
IFRS 14	Regulatory Deferral Accounts
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements

The application of the new and revised IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
IFRS 9	Financial Instruments ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
IFRS 15	Revenue from Contracts with Customers ¹
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
Amendments to IAS 7	Disclosure Initiative ⁴
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2017

IFRS 9 *Financial Instruments*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Manager will assess the impact of the application of IFRS 9. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 9 until the Group performs a detailed review.

(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 17 (31 December 2015: 17) properties as at 30 June 2016 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 accounting policies of the operating segments are the same as the Group's accounting policies. 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>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Base rental	712,428	667,385
Charge-out collections	171,310	166,776
Other rental	95,005	87,125
Other income	321	1,306
	<u>979,064</u>	<u>922,592</u>

(6) Trust Expenses

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Trustee's fee	6,276	6,003
Acquisition fee	-	19,185
Expenses for acquisition	-	4,046
Other charges	3,537	3,543
	<u>9,813</u>	<u>32,777</u>

(7) Borrowing costs

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expense on		
- term loans	81,232	74,835
- revolving loans	5,658	10,955
Equalisation of interest expense through interest rate swaps and caps	34,588	23,825
Commitment fee	1,084	719
Front end fees		
- amortisation	17,197	17,081
- written off upon early repayment of term loans	199	1,444
	<u>139,958</u>	<u>128,859</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,559	1,604
Fees to internal auditor	170	165
Valuation fees (paid to principal valuer)	193	304
	<u>1,922</u>	<u>2,073</u>

(9) Income tax expense

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax:		
- Hong Kong	90,076	82,231
- Singapore	-	50
	<hr/>	<hr/>
	90,076	82,281
Deferred taxation	15,528	15,839
	<hr/>	<hr/>
	105,604	98,120
	<hr/>	<hr/>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2015: 16.5%) for the period. Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (six months ended 30 June 2015: 17%) for the period.

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 all 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) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$521.0 million (six months ended 30 June 2015: HK\$1,519.0 million) by the weighted average of 1,893,604,897 units (six months ended 30 June 2015: 1,880,036,064 units) outstanding during the period.

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

(11) Investment properties

	<i>30 June</i>	<i>31 December</i>
	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Fair value		
At beginning of the period/year	35,918,000	32,720,000
During the period/year:		
Acquisition of investment properties	-	1,912,254
Capital expenditure incurred in upgrading investment properties	46,632	97,765
Disposal of an investment property	-	(438,489)
Change in fair value of investment properties	223,368	1,626,470
At end of the period/year	<hr/>	<hr/>
	36,188,000	35,918,000

(12) Trade and other receivables

	<i>30 June 2016 HK\$'000 (Unaudited)</i>	<i>31 December 2015 HK\$'000 (Audited)</i>
Trade receivables	36,048	39,253
Other receivables and prepayments		
Security deposits	28,101	28,078
Other receivables	5,008	4,288
Prepayments	806	1,822
	<u>33,915</u>	<u>34,188</u>
	<u>69,963</u>	<u>73,441</u>

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

	<i>30 June 2016 HK\$'000 (Unaudited)</i>	<i>31 December 2015 HK\$'000 (Audited)</i>
0 - 30 days	35,742	38,954
31 - 90 days	284	251
Over 90 days	22	48
	<u>36,048</u>	<u>39,253</u>

(13) Borrowings

	<i>30 June 2016 HK\$'000 (Unaudited)</i>	<i>31 December 2015 HK\$'000 (Audited)</i>
Secured term loans	7,661,360	7,845,351
Unsecured term loans	2,818,700	1,618,700
Secured revolving loans	550,000	1,470,000
Unsecured revolving loans	-	130,000
	<u>11,030,060</u>	<u>11,064,051</u>
Less: unamortised front end fees	(69,631)	(55,027)
	<u>10,960,429</u>	<u>11,009,024</u>
Carrying amount repayable:		
On demand or within one year	4,496,672	3,780,054
More than one year, but not more than two years	-	3,940,320
More than two years, but not more than five years	6,463,757	3,288,650
	<u>10,960,429</u>	<u>11,009,024</u>
Less: Amount due within one year shown under current liabilities	(4,496,672)	(3,780,054)
	<u>6,463,757</u>	<u>7,228,970</u>

(14) Trade and other payables

	<i>30 June 2016 HK\$'000 (Unaudited)</i>	<i>31 December 2015 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits		
- Outside parties	469,255	453,704
- Related parties	15,733	13,907
Rental received in advance		
- Outside parties	26,609	22,110
	<u>511,597</u>	<u>489,721</u>
Other payables		
Trustee's fee	2,109	2,081
Other expenses		
- Outside parties	117,725	106,142
- Related parties	50,774	62,103
- Manager	21,876	6,949
Interest payable	5,560	3,420
Others	3,770	3,568
	<u>201,814</u>	<u>184,263</u>
	<u>713,411</u>	<u>673,984</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\$300.5 million (31 December 2015: HK\$299.6 million) as at 30 June 2016.

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2015	1,876,290	7,665,247
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 30 September 2015	10,082	78,625
Balance in issue as at 31 December 2015	<u>1,886,372</u>	<u>7,743,872</u>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 October to 31 December 2015	3,527	27,160
Balance as at 31 December 2015	<u>1,889,899</u>	<u>7,771,032</u>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2016	3,252	26,865
Balance in issue as at 30 June 2016	<u>1,893,151</u>	<u>7,797,897</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2016	2,986	27,066
Balance as at 30 June 2016	<u>1,896,137</u>	<u>7,824,963</u>

(16) 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\$24,218.3 million (31 December 2015: HK\$24,106.3 million) and the total number of 1,896,137,133 (31 December 2015: 1,889,899,303) units in issue or 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 2016, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$4,949.7 million (31 December 2015: HK\$4,140.9 million).

As at 30 June 2016, the Group's total assets less current liabilities amounted to HK\$31,238.3 million (31 December 2015: HK\$31,783.0 million).