

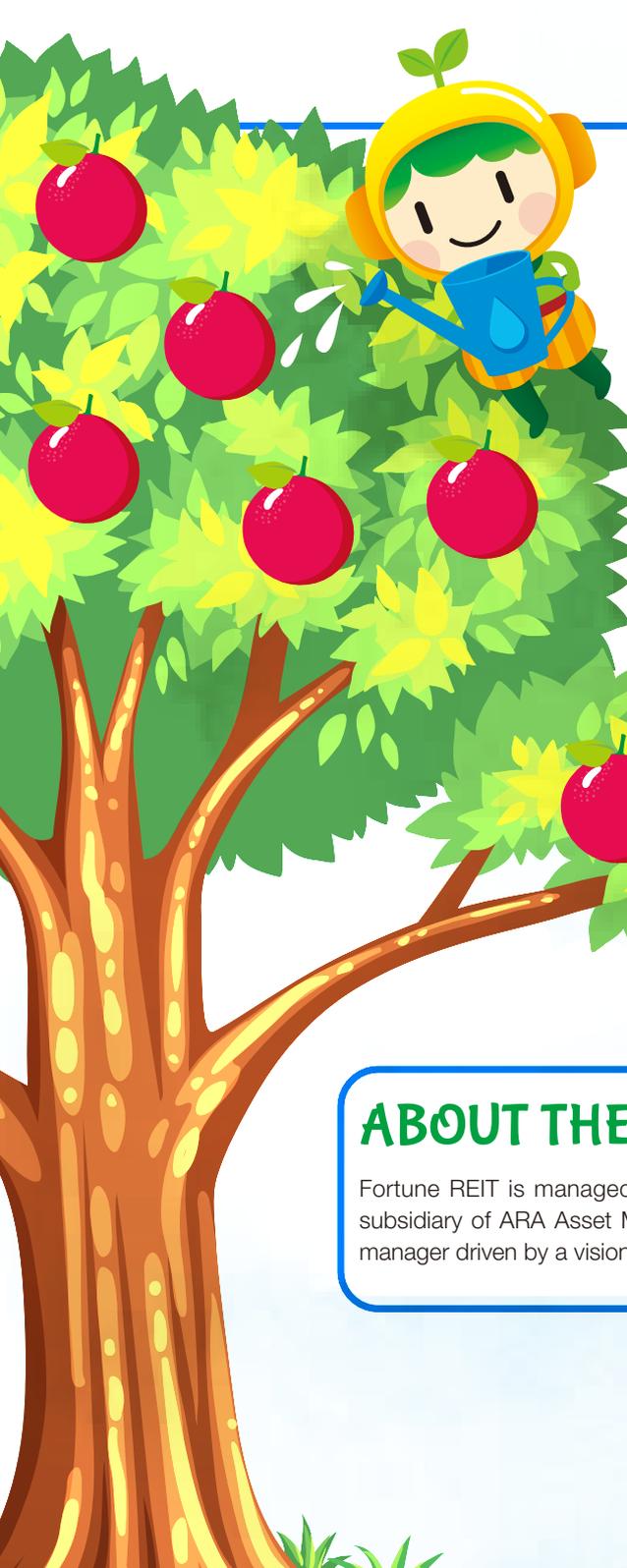
FORTUNE
置富產業信託 **REIT**

**SUSTAINABLE GROWTH
THROUGH EXCELLENCE**
持續發展 迎接豐盛

股份代號 | 香港 Hong Kong 778
Stock Code | 新加坡 Singapore F25U



INTERIM REPORT
2018 中期報告



ABOUT FORTUNE REIT

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a real estate investment trust constituted by a trust deed (the “**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 (the “**SEHK**”) and secondary listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Fortune REIT is Asia’s first cross-border REIT and also the first REIT to hold assets in Hong Kong. Fortune REIT currently holds a portfolio of 16 private housing estate retail properties in Hong Kong comprising of 3.0 million square feet (“**Sq.ft.**”) of retail space and 2,713 carparking spaces.



ABOUT THE MANAGER

Fortune REIT is managed by ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of ARA Asset Management Limited, a premier global integrated real assets fund manager driven by a vision to be the best-in-class real assets fund management company.

OUR MISSION

The Manager's key objective is to deliver regular and stable returns to holders of Fortune REIT units ("**Unitholders**") through proactive management of Fortune REIT's portfolio of assets and acquiring properties that generate long term benefits to Unitholders.



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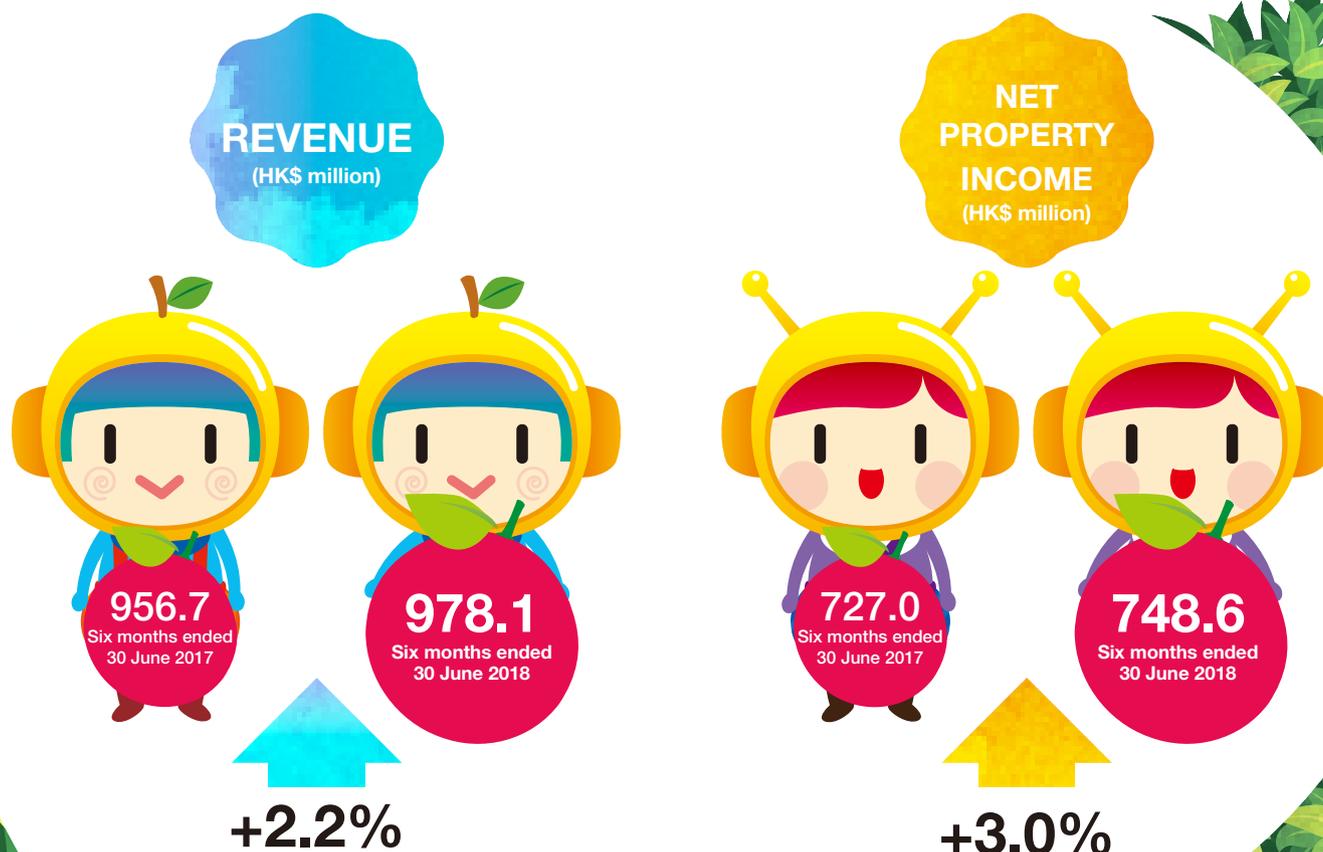
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FINANCIAL HIGHLIGHTS

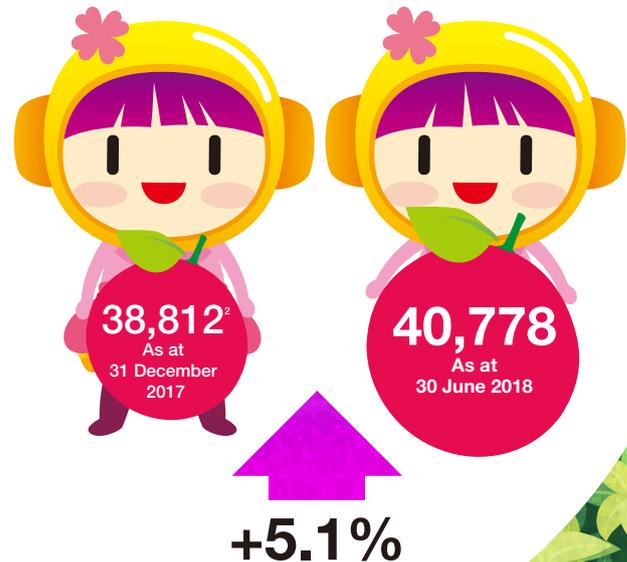


	Six months ended 30 June 2018	Six months ended 30 June 2017	% change
Revenue (HK\$ million)	978.1	956.7 ¹	+2.2%
Net property income (HK\$ million)	748.6	727.0	+3.0%
Cost-to-revenue ratio	21.1%	21.7% ¹	-0.6%
Income available for distribution (HK\$ million)	505.2	487.3	+3.7%
Distribution per unit ("DPU") (HK cents)	26.34	25.53	+3.2%

**NET ASSET
VALUE
PER UNIT**
(HK\$)



**PROPERTY
VALUATION**
(HK\$ million)



	As at 30 June 2018	As at 31 December 2017	% change
Net asset value per unit (HK\$)	16.09	14.05	+14.5%
Property valuation (HK\$ million)	40,778	38,812 ²	+5.1%
Gearing ratio/Aggregate leverage ³	22.3%	27.4%	-5.1%

Notes:

1. "Revenue" and "Property operating expenses" have been reclassified to conform with the current period's presentation.
2. The amount included the valuation of Provident Square of HK\$1,061 million which was transferred to assets of a disposal company classified as held for sale.
3. 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 2018, there was no deferred payment.

THREE GROWTH STRATEGIES



YIELD-ACCRETIVE ACQUISITION



Fortune REIT has been one of the fastest growing REITs in Hong Kong, actively identifying yield-accretive assets from time to time. Portfolio has expanded from 5 to 16 properties since listing in 2003. Asset valuation has increased by more than 11 times to HK\$40.8 billion.



ACTIVE LEASING MANAGEMENT



Through proactively retaining quality tenants and securing early commitment before leases expire, Fortune REIT achieved a rental reversion of 13.6% from renewals during the Reporting Period. Average passing rent reached HK\$45.9 per Sq. ft. as at 30 June 2018.

ASSET ENHANCEMENT INITIATIVES (“AEIs”)



In June 2018, Fortune REIT has embarked on its HK\$150 million AEIs at Fortune Kingswood, the largest asset in its portfolio. Riding on the experience of successful AEIs execution, we are optimistic that Fortune Kingswood will continue to fuel growth of Fortune REIT.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Fortune REIT continued to deliver steady growth in its financial performance for the six months ended 30 June 2018 (the “**Reporting Period**”). Total revenue and net property income rose by 2.2% and 3.0% year-on-year to HK\$978.1 million and HK\$748.6 million, respectively. The increase was mainly due to positive rental reversion but partially offset by the divestment of Provident Square. Excluding the effect of Provident Square, total revenue and net property income for the 16 properties increased by 4.2% and 4.6% year-on-year respectively. Total property operating expenses (excluding the Manager’s performance fee) decreased by 0.5% year-on-year to HK\$206.2 million. Despite the increase in electricity tariffs effective from the beginning of 2018, our continued efforts in energy saving have resulted in reduced utility expenses during the Reporting Period. Under our disciplined cost control, the cost-to-revenue ratio improved further to 21.1% for the Reporting Period (first half of 2017: 21.7%).

Finance costs (excluding change in fair value of derivative financial instruments) decreased by 0.6% year-on-year to HK\$131.9 million despite the impact from a higher HIBOR during the Reporting Period as the increase was mostly offset by interest saving resulted from certain loan repayments. The effective borrowing cost for the Reporting Period was 2.72% (First half of 2017: 2.41%) over a reduced amount of total debt.

Income available for distribution for the Reporting Period was HK\$505.2 million, representing a year-on-year increase of 3.7%. The DPU for the Reporting Period was 26.34 HK cents, up by 3.2% year-on-year (first half of 2017: 25.53 HK cents). Based on the closing unit price of HK\$9.22 as at 29 June 2018 in Hong Kong, the DPU implied an annualised distribution yield of 5.8%.



The interim DPU of 26.34 HK cents for the six months ended 30 June 2018 will be paid on 29 August 2018 to Unitholders on the registers of Unitholders of Fortune REIT as at 14 August 2018.

CAPITAL MANAGEMENT

On 28 February 2018, Fortune REIT has successfully completed the divestment of Provident Square for HK\$2.0 billion. HK\$1.1 billion from the divestment proceeds has been applied for early repayment of a bank loan due 2019 which has reduced its gearing and eliminated refinancing needs until 2020.

As at 30 June 2018, Fortune REIT's total committed loan facilities amounted to HK\$10,055.1 million (31 December 2017: HK\$11,155.1 million). The gearing ratio and aggregate leverage decreased to 22.3% (31 December 2017: 27.4%) as a result of a higher property valuation and a lower borrowing level. Fortune REIT's gross liability as a percentage of its gross assets decreased to 26.6% as at 30 June 2018 (31 December 2017: 32.1%).

Fortune REIT has obtained both secured and unsecured loan facilities. Further to the early repayment of a secured loan facility, Fortune REIT's financial flexibility has been enhanced as 15 out of its 16 investment properties are unencumbered. As at 30 June 2018, approximately 80% of total committed debts were unsecured. The secured loan facility is secured over Ma On Shan Plaza which carried an aggregate fair value of HK\$5,917 million as at 30 June 2018. The Trustee has provided guarantees for all of the loan facilities.



MANAGEMENT DISCUSSION AND ANALYSIS

Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements. As at 30 June 2018, available liquidity stood at HK\$1,797.3 million (31 December 2017: HK\$1,216.0 million), comprising HK\$700.0 million undrawn committed facilities (31 December 2017: HK\$700.0 million) and HK\$1,097.3 million cash and deposit (31 December 2017: HK\$516.0 million). The increase in period-end cash and deposit balance was primarily due to the cash retained from the remaining divestment proceeds.

As at 30 June 2018, the interest cost for approximately 54% (31 December 2017: 60%) of Fortune REIT's outstanding debts was hedged through interest rate swaps and caps.

Net asset value per unit amounted to HK\$16.09 as at 30 June 2018, up 14.5% from HK\$14.05 at the end of 2017.

PORTFOLIO VALUATION

Notwithstanding the divestment of Provident Square, Fortune REIT's portfolio valuation increased by 5.1% from HK\$38,812 million as at 31 December 2017 to HK\$40,778 million as at 30 June 2018. On a like-for-like basis excluding Provident Square divested during the Reporting Period, valuation grew by 8.0% over the six-month period. Knight Frank Petty Limited, the Principal Valuer, adopted the valuation methodology of income capitalisation approach and cross-referenced with direct comparison approach. To reflect the latest transaction yields of similar properties, the average capitalisation rate was compressed by about 25 bps to 4.3%. With the increased valuation, a revaluation gain of HK\$3,011.5 million was recorded for the Reporting Period.



PORTFOLIO HIGHLIGHTS

As at 30 June 2018, 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	8,580	98.6%	653
Fortune Kingswood	665,244	8,069	94.0%	622
Ma On Shan Plaza	310,084	5,917	99.6%	290
Metro Town	180,822	3,816	100.0%	74
Fortune Metropolis	332,168	2,779	83.1%	179
Laguna Plaza	163,203	2,624	98.1%	150
Belvedere Square	276,862	2,534	99.5%	329
Waldorf Avenue	80,842	1,795	100.0%	73
Caribbean Square	63,018	1,231	100.0%	117
Jubilee Square	170,616	952	96.2%	97
Smartland	123,544	773	95.6%	67
Tsing Yi Square	78,836	748	100.0%	27
Centre de Laguna	43,000	322	100.0%	N.A
Hampton Loft	74,734	305	100.0%	35
Lido Avenue	9,836	205	100.0%	N.A
Rhine Avenue	14,604	128	100.0%	N.A
Total/Overall average	3,001,882	40,778	96.0%	2,713



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Hong Kong retail market demonstrated double-digit growth during the first five months of 2018. The growth has spanned over a wide spectrum of sectors with big ticket items such as jewelry & watches and electrical goods taking the lead and non-discretionary sectors registered a modest growth. In general, operating environment has been more positive for retailers.

AEIs at Fortune Kingswood started in June 2018 and has caused minor disruption to its operations during the Reporting Period. Nevertheless, portfolio occupancy still registered a healthy 96.0% as at 30 June 2018 (31 December 2017: 98.1%) while tenant retention rate was moderated to 60.7% due to some tenants' reshuffling at Fortune Kingswood. A rental reversion of 13.6% was achieved from renewals during the Reporting Period with average passing rent of HK\$45.9 per Sq. ft. as at 30 June 2018.

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 70% of total GRA. These sectors remain as the anchor to sustain Fortune REIT's resilience over the long term.

Major AEIs Commenced at Fortune Kingswood

Fortune Kingswood, the largest asset in Fortune REIT's portfolio, is undergoing a major AEIs for a transformation into a regional shopping mall. The first phase of work started in June 2018 at the West Block. The renovation of the West Block is expected to be completed in phases by end of 2019 with an estimated capex of HK\$150 million. The West Block will be equipped with some enriched retail and food and beverage offerings, a modernised ambiance and more shopper-friendly facilities.



OUTLOOK

The Hong Kong economy grew notably by 4.7% year-on-year in the first quarter of 2018 while private consumption recorded a robust 8.6% year-on-year growth on the back of a tight labour market as well as rising asset prices. For the first five months in 2018, Hong Kong's total retail sales value recorded a 13.7% year-on-year growth. Retail sales outlook remains positive in the near term as visitor arrivals are set for a steady rise given the opening of the Hong Kong-Zhuhai-Macao Bridge as well as the Express Rail Link later in 2018. With a broad-based recovery in retail sales, we are hopeful of seeing a positive leasing market to follow.

The US Federal Reserve has increased interest rate twice for a total rise of 0.5% during the Reporting Period. As US employment and inflation continue to climb, the financial market generally expects two more rate hikes for the rest of 2018. As part of Fortune REIT's prudent capital management, we have hedging measures in place to limit the potential financial impact of interest rate volatility.

Fortune REIT is dedicated to drive revenue growth and sustainable returns to the Unitholders by building on the strong foundation of its portfolio. We remain focused on proactive leasing management and enhancing the tenant mix, adding value to our malls through AElS, prudently seeking yield-accretive investment opportunities and maintaining a healthy capital structure.



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 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, to comply 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 (the “**Hong Kong Listing Rules**”) (where applicable) and the Singapore Code of Corporate Governance 2012 (the “**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 during the Reporting Period.



During the Reporting Period, the Compliance Manual and the Trust Deed had been amended to reflect the changes made to the scope of the investment policy of Fortune REIT in respect of Geographical Scope, Property Development and Related Activities and Relevant Investment, and for the purpose to enhance the clarity and consistency. For details of the expansion of the scope of the investment policy of Fortune REIT, please refer to the circular dated 21 March 2018 and the poll results announcement dated 27 April 2018 published on Fortune REIT's website at www.fortunereit.com and the SEHK's website at www.hkexnews.hk.

BOARD OF DIRECTORS OF THE MANAGER

The board of directors of the Manager (the "**Board**") is responsible for corporate governance and the overall management of the Manager including establishing goals for management and monitoring the achievement of these goals. All Board members participate in matters relating to corporate governance, business operations and risks, financial performance and the nomination and review of the performance of directors of the Manager (the "**Directors**"). The Board has established a framework for the management of Fortune REIT and the Manager, including a system of internal controls and business risk management processes.



CORPORATE GOVERNANCE

The Board meets regularly to review the Manager's key activities. Board meetings are held once every quarter (or more often if necessary) to discuss and review the strategies and policies of Fortune REIT, including any significant acquisitions and disposals, annual budget, financial performance of Fortune REIT and to approve the release of the financial results. The Board also reviews the risks to Fortune REIT's assets, and acts upon any comments from the auditors of Fortune REIT (the "**Auditors**"). Ad-hoc Board meetings will be held, as and when necessary, to address significant transactions or issues that may arise in between scheduled meetings. In lieu of physical meetings, written resolutions may also be circulated for approval by the Board.

As at 30 June 2018, the Board comprised nine members, eight of whom are Non-Executive Directors ("**NEDs**"). Four of the NEDs are Independent Non-Executive Directors ("**INEDs**"). The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties.

The Board has established an Audit Committee, a Disclosures Committee and a Designated Committee with clear terms of reference to assist it in discharging its responsibilities.

- The role of the Audit Committee is to, among other things, safeguard the assets of the Manager and Fortune REIT, assist the Board with discharging its responsibility in maintaining adequate accounting records, develop, maintain and review the effectiveness of the financial reporting systems, internal control and risk management systems and the internal audit function, ensure integrity of financial statements and provide arrangements whereby concerns on financial improprieties or other matters raised by "whistle-blowers" are investigated and appropriate follow up actions are taken. The Audit Committee also, among other things, monitors the procedures established to regulate transactions with "connected person" (as defined in the Code on Real Estate Investment Trusts (the "**REIT Code**")).
- The role of the Disclosures Committee is to assist the Board in reviewing matters relating to the disclosure of information to the Unitholders and public announcements.
- The role of the Designated Committee is to assist the Board in reviewing matters relating to hedging strategies, financing and refinancing arrangements and transactions involving derivative instruments for hedging purposes.

INTERESTS OF, AND DEALINGS IN UNITS BY DIRECTORS, THE MANAGER OR THE SIGNIFICANT UNITHOLDERS

The Manager has adopted the Code Governing Dealings in Units by Directors or the Manager (the "**Units Dealing Code**") governing dealings in the securities of Fortune REIT by the Directors, the Manager and senior executives, officers or other employees of the Manager (collectively, the "**Management Persons**") on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules. Specific enquiry has been made with the Management Persons, who have confirmed that they have complied with the required standard set out in the Units Dealing Code during the Reporting Period.

COMMUNICATION BETWEEN FORTUNE REIT'S HONG KONG AND SINGAPORE OFFICES

As the management and operations of Fortune REIT are overseen and conducted by the Manager's management teams and staff located in Hong Kong and Singapore, the Manager will ensure that both offices work as a fully integrated team and communicate regularly and work closely together in meeting the investment objectives of Fortune REIT.

CHANGES OF DIRECTORS' INFORMATION

Subsequent to publication of the Annual Report 2017 of Fortune REIT, the Manager received notifications regarding the following changes of Directors' information during the Reporting Period:

- Dr. Chiu Kwok Hung, Justin has ceased as member of the Standing Committee of the 12th Shanghai Committee of Chinese People's Political Consultative Conference of the People's Republic of China upon its expiry.
- Dr. Chiu Kwok Hung, Justin has been appointed as the Vice-Chairman of the Board of Governors of Hong Kong Baptist University Foundation.
- Dr. Chiu Kwok Hung, Justin has been appointed as a Fellow of the Royal Institution of Chartered Surveyors.
- Ms. Eirene Yeung has ceased as the member of the Listing Committee of the Main Board and Growth Enterprise Market of the SEHK in June 2018 after completion of the full term of 6 years.
- Ms. Cheng Ai Ping did not renew her membership as a Fellow of Chartered Certified Accountant of the Association of Chartered Certified Accountants, United Kingdom since 1 January 2018.
- Ms. Koh Poh Wah has been appointed as a member of the Audit Committee of Fortune REIT with effect from 2 May 2018.

REVIEW OF INTERIM REPORT

The interim report of Fortune REIT for the Reporting Period has been reviewed by the Audit Committee and the Disclosures Committee of the Manager. The interim financial statements have also been reviewed by the 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 International Auditing and Assurance Standards Board.

CONNECTED PARTY TRANSACTIONS

Set out below is the information in respect of the connected party transactions involving Fortune REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

CONNECTED PARTY TRANSACTIONS – INCOME

Save as disclosed under the section headed “Connected Party Transactions with the Trustee Connected Persons”, the following table set forth information on all connected party transactions from which Fortune REIT derived its income during the Reporting Period:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the six months ended 30 June 2018 HK\$'000	Rental deposit received as at 30 June 2018 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Leasing transactions	443	241
A.S. Watson Retail (HK) Limited	Associated company of a significant holder ¹	Leasing and licensing transactions	18,943	1,601
BIGBOXX.com Limited	Associated company of a significant holder ¹	Leasing transactions	1,225	–
Cheung Kong Property Development Limited	Associate of a significant holder ¹	Leasing and licensing transactions	17,636	–
Citybase Property Management Limited	Associate of a significant holder ¹	Leasing transactions	1,044	621
Hutchison International Limited	Associated company of a significant holder ¹	Leasing transactions	1,495	–
Hutchison Telephone Company Limited	Associated company of a significant holder ¹	Licensing transactions	4,700	1,592
Hutchison Telecommunication Services Limited	Associated company of a significant holder ¹	Licensing transactions	42	5
PARKnSHOP (HK) Limited	Associated company of a significant holder ¹	Leasing and licensing transactions	74,723	10,089
Sino China Enterprises Limited	Associate of a significant holder ¹	Licensing transactions	9	5
Towerich Limited	Associate of a significant holder ¹	Licensing transactions	34	18
Total			120,294	14,172

Note:

1. Significant holder being Focus Eagle Investments Limited (“Focus Eagle”).

CONNECTED PARTY TRANSACTIONS – EXPENSES

The following table sets forth information in relation to property management arrangements, third party services and other operational transactions provided by the connected parties for the properties of Fortune REIT during the Reporting Period:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2018 HK\$'000
Citybase Property Management Limited	Associate of a significant holder ¹	Property management and operations	504
E-Park Parking Management Limited	Associate of a significant holder ¹	Carpark lease agency fee	4,609
Goodwell-Fortune Property Services Limited	Associate of a significant holder ¹	Property and lease management fee and marketing services fee	37,050
Goodwell Property Management Limited	Associate of a significant holder ¹	Property management and operations	88
Whampoa Property Management Limited	Associate of a significant holder ¹	Property management and operations	108
Total			42,359

Note:

1. The significant holder being Focus Eagle.

CONNECTED PARTY TRANSACTIONS – OTHERS

The following table sets forth information in relation to other services provided by the connected parties to Fortune REIT during the Reporting Period:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2018 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Manager's fee	91,701
HSBC Institutional Trust Services (Singapore) Limited	Trustee	Trustee's fee	6,699
Knight Frank Petty Limited	Principal valuer	Valuation fees	315
Total			98,715

CONNECTED PARTY TRANSACTIONS

CONNECTED PARTY TRANSACTIONS WITH THE TRUSTEE CONNECTED PERSONS

Leasing/Licensing Transactions

The following table sets forth information on the leasing/licensing transactions between Fortune REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies all within the meaning of the REIT Code) and the HSBC Group¹ (collectively, the “Trustee Connected Persons”) during the Reporting Period:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the six months ended 30 June 2018 HK\$'000	Rental deposit received as at 30 June 2018 HK\$'000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing and licensing transactions	9,846	5,398
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)	Trustee Connected Persons	Leasing and licensing transactions	4,933	2,138
Total			14,779	7,536

Note:

1. HSBC Group means HSBC and its subsidiaries and unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Fortune REIT). Specifically, HSBC Group includes Hang Seng Bank Limited and its subsidiaries.

PROVISION OF ORDINARY BANKING AND FINANCIAL SERVICES

Fortune REIT has engaged HSBC Group to provide ordinary course of banking and financial services (namely, bank deposits and interest earned therefrom and loan facilities including interest and charges paid thereto) within the Reporting Period.

DISCLOSURE OF INTERESTS

UNIT CAPITAL

The total number of issued units as at 30 June 2018 is 1,917,295,034 units.

HOLDINGS OF SIGNIFICANT UNITHOLDERS AND OTHER UNITHOLDERS

As at 30 June 2018, each of the following persons was considered a “significant Unitholder”, and hence a “connected person” of Fortune REIT, for the purpose of the REIT Code:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Focus Eagle ¹	413,074,684	21.54%	–	–
CK Asset Holdings Limited (“CK Asset”) ¹	–	–	525,630,684	27.41%
Schroders Plc ²	–	–	221,637,879	11.56%

In addition to the significant Unitholders as disclosed above, each of the following persons held, or was deemed to hold 5% or more of the issued units as at 30 June 2018:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Ballston Profits Limited ¹	112,556,000	5.87%	–	–

Notes:

- Focus Eagle and Ballston Profits Limited were indirect wholly-owned subsidiaries of CK Asset. Therefore, CK Asset was deemed to hold 525,630,684 units, of which: (i) 413,074,684 units were held by Focus Eagle; and (ii) 112,556,000 units were held by Ballston Profits Limited.
- Schroders Plc was deemed to be interested in 221,637,879 units of which:
 - 77,996,400 units were held by Schroder Investment Management Limited;
 - 66,081,000 units were held by Schroder Investment Management (Singapore) Limited;
 - 76,702,000 units were held by Schroder Investment Management (Hong Kong) Limited; and
 - 858,479 units were held by Schroder & Co (Asia) Limited.

DISCLOSURE OF INTERESTS

INTERESTS OF THE MANAGER

As at 30 June 2018, the Manager held 2,946,738 units, or approximately 0.15% of the issued units of Fortune REIT.

INTERESTS OF THE DIRECTORS AND SENIOR EXECUTIVES

Details of the unitholding interests of the Directors and senior executives of Fortune REIT as at 30 June 2018 were as follows:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Director				
Lim Hwee Chiang ¹	1,000,000	0.05%	2,100,000	0.11%

Note:

1. Mr. Lim Hwee Chiang was deemed to be interested in the 2,100,000 units held by Citibank Nominees Singapore Pte. Ltd. (as nominee for JL Philanthropy Ltd). Mr. Lim is the settlor of JL Charitable Settlement which is the beneficiary of JL Philanthropy Ltd.

HOLDINGS OF THE OTHER CONNECTED PERSONS

HSBC Group, being the Trustee Connected Persons of Fortune REIT, did not hold any beneficial interest in any units of Fortune REIT as at 30 June 2018.

Saved as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Fortune REIT holding any units of Fortune REIT as at 30 June 2018.

To the best knowledge of the Manager and save as disclosed, the following sets out changes in the beneficial interest of certain connected persons of Fortune REIT, in compliance with rule 8.2(a) of the REIT Code, by reference to comparison of their respective beneficial interests as at 30 June 2018 and 31 December 2017:

- (a) Schroders Plc was beneficially interested in 221,637,879 units as at 30 June 2018 and 227,613,698 units as at 31 December 2017;
- (b) The Manager was beneficially interested in 2,946,738 units as at 30 June 2018 and 3,488,811 units as at 31 December 2017;
- (c) HSBC Group did not hold any beneficial interest in any units as at 30 June 2018 and was beneficially interested in 5,159,000 units as at 31 December 2017; and
- (d) Mr. Richard Waichi Chan, a director of Focus Eagle and his associate were beneficially interested in 100,000 units as at 30 June 2018 and 31 December 2017.

OTHER INFORMATION

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2018, the total number of issued units of Fortune REIT was 1,917,295,034. As compared with the position as at 31 December 2017, a total of 6,018,927 new units were issued during the Reporting Period in the following manner:

- On 2 January 2018, 3,072,278 new units were issued to the Manager at the price of HK\$9.5526 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.3 million payable by Fortune REIT for the period from 1 October 2017 to 31 December 2017.
- On 6 April 2018, 2,946,649 new units were issued to the Manager at the price of HK\$9.4770 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.9 million payable by Fortune REIT for the period from 1 January 2018 to 31 March 2018.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 6,561,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued units of Fortune REIT were held in public hands as at 30 June 2018.

CORPORATE INFORMATION

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LIM Hwee Chiang, *Non-Executive Director*
YEUNG, Eirene, *Non-Executive Director*
MA Lai Chee, Gerald, *Non-Executive Director*
CHIU Yu, Justina, *Chief Executive Officer and Executive Director*
CHENG Ai Phing, *Independent Non-Executive Director*
YEO Annie (alias YEO May Ann), *Independent Non-Executive Director*
KOH Poh Wah, *Independent Non-Executive Director*

COMPANY SECRETARY OF THE MANAGER

YEOH Kar Choo, Sharon

TRUSTEE

HSBC Institutional Trust Services (Singapore) Limited

LEGAL ADVISER AS TO HONG KONG LAW

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF ARA ASSET MANAGEMENT (FORTUNE) LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fortune Real Estate Investment Trust (“**Fortune REIT**”) set out on pages 26 to 55, which comprises the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in net assets attributable to unitholders, condensed consolidated statement of cash flows and distribution statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. ARA Asset Management (Fortune) Limited, as manager of Fortune REIT, is responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 July 2018

FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (Restated)
Revenue	4	978,062	956,669
Property operating expenses	6	(206,202)	(207,149)
Net property income (before manager's performance fee)		771,860	749,520
Manager's performance fee		(23,276)	(22,496)
Net property income		748,584	727,024
Manager's base fee		(58,425)	(54,950)
Foreign currency exchange gain		56	70
Interest income		4,004	342
Trust expenses	7	(8,859)	(8,145)
Gain on disposal of a property company	12	941,060	–
Change in fair value of investment properties	12	3,011,511	1,096,953
Finance costs	8	(89,508)	(216,925)
Profit before taxation and transactions with unitholders	9	4,548,423	1,544,369
Income tax expense	10	(113,415)	(110,449)
Profit for the period, before transactions with unitholders		4,435,008	1,433,920
Distributions to unitholders		(505,181)	(487,324)
Total comprehensive income for the period		3,929,827	946,596
Income available for distribution to unitholders		505,181	487,324
Basic earnings per unit (HK cents)	11	232.05	75.24

DISTRIBUTION STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period, before transactions with unitholders	4,435,008	1,433,920
Adjustments:		
Manager's base fee	58,425	54,950
Gain on disposal of a property company	(941,060)	–
Change in fair value of investment properties	(3,011,511)	(1,096,953)
Change in fair value of derivative financial instruments	(42,348)	84,280
Non-tax deductible front end fees	–	4,852
Foreign currency exchange gain	(56)	(70)
Other non-tax deductible trust expenses	6,723	6,345
Income available for distribution (Note (i))	505,181	487,324
Distribution per unit (HK cents) (Note (ii))	26.34	25.53

Notes:

- (i) The distribution policy of Fortune REIT has been amended on 26 March 2010 pursuant to the extraordinary resolution passed on the same date for the purpose of allowing Fortune REIT to comply with the relevant Hong Kong regulatory requirements, including the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong ("SFC"). The current distribution policy, as amended, obliges Fortune REIT 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 ARA Asset Management (Fortune) Limited (the "Manager")) after deduction of applicable expenses ("Net Tax-Exempt Income"); 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 the REIT Code ("Net Profit After Tax").

Net Tax-Exempt Income and Net Profit After Tax for the six months ended 30 June 2018 is HK\$505.2 million (six months ended 30 June 2017: HK\$487.3 million) and HK\$465.9 million (six months ended 30 June 2017: HK\$451.7 million), respectively. Accordingly, the income available for distribution, based on the Net Tax-Exempt Income, of HK\$505.2 million (six months ended 30 June 2017: HK\$487.3 million) would be distributed to unitholders for the six months ended 30 June 2018.

- (ii) The distribution per unit of 26.34 HK cents for the six months ended 30 June 2018 is calculated based on the income available for distribution for the period of HK\$505.2 million over the issued units as at 30 June 2018 of 1,917,295,034 units. The distribution amounting to HK\$505.2 million for the six months ended 30 June 2018 will be paid on 29 August 2018.

The distribution per unit of 25.53 HK cents for the six months ended 30 June 2017 was calculated based on the income available for distribution for the period of HK\$487.3 million over 1,908,173,581 units, represented issued units as at 30 June 2017 of 1,905,208,839 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 2017 of 2,964,742 units. The distribution amounted to HK\$487.3 million for the six months ended 30 June 2017 was paid on 29 August 2017.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	40,778,000	37,751,000
Derivative financial instruments	13	56,734	19,279
Total non-current assets		40,834,734	37,770,279
Current assets			
Trade and other receivables	14	65,148	266,958
Bank balances and cash		1,097,328	516,036
Derivative financial instruments	13	–	668
		1,162,476	783,662
Assets of a disposal company classified as held for sale	12	–	1,068,187
Total current assets		1,162,476	1,851,849
Total assets		41,997,210	39,622,128
Non-current liabilities			
Derivative financial instruments	13	–	5,790
Borrowings	15	9,296,877	9,286,423
Deferred tax liabilities		456,090	444,146
Total non-current liabilities		9,752,967	9,736,359
Current liabilities			
Trade and other payables	16	781,295	967,726
Borrowings	15	–	1,496,788
Derivative financial instruments	13	229	–
Distribution payable		505,181	483,436
Provision for taxation		112,019	11,324
		1,398,724	2,959,274
Liabilities directly associated with assets of a disposal company classified as held for sale	12	–	38,728
Total current liabilities		1,398,724	2,998,002
Total liabilities, excluding net assets attributable to unitholders		11,151,691	12,734,361
Net assets attributable to unitholders		30,845,519	26,887,767
Units in issue and to be issued ('000)	17	1,917,295	1,914,348
Net asset value per unit attributable to unitholders (HK\$)	18	16.09	14.05

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the six months ended 30 June 2018

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2018 (Audited)	7,992,482	(286,279)	19,181,564	26,887,767
OPERATIONS				
Profit for the period, before transactions with unitholders	–	–	4,435,008	4,435,008
Distribution paid and payable of 26.34 HK cents per unit for the six months ended 30 June 2018	–	–	(505,181)	(505,181)
Total comprehensive income for the period	–	–	3,929,827	3,929,827
UNITHOLDERS' TRANSACTIONS				
Creation of units – Manager's base fee paid in units	27,925	–	–	27,925
Increase in net assets resulting from unitholders' transactions	27,925	–	–	27,925
Net assets attributable to unitholders as at 30 June 2018 (Unaudited)	8,020,407	(286,279)	23,111,391	30,845,519
	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2017 (Audited)	7,879,828	(286,279)	16,951,334	24,544,883
OPERATIONS				
Profit for the period, before transactions with unitholders	–	–	1,433,920	1,433,920
Distribution paid and payable of 25.53 HK cents per unit for the six months ended 30 June 2017	–	–	(487,324)	(487,324)
Total comprehensive income for the period	–	–	946,596	946,596
UNITHOLDERS' TRANSACTIONS				
Creation of units – Manager's base fee paid/payable in units	54,950	–	–	54,950
Increase in net assets resulting from unitholders' transactions	54,950	–	–	54,950
Net assets attributable to unitholders as at 30 June 2017 (Unaudited)	7,934,778	(286,279)	17,897,930	25,546,429

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash from operating activities	713,394	710,318
Net cash from/(used in) investing activities:		
Upgrading of investment properties	(15,489)	(35,047)
Proceed from disposal of a property company	1,985,005	–
Other investing cash flows	3,303	344
	1,972,819	(34,703)
Net cash used in financing activities:		
Drawdown of borrowings	–	1,570,000
Repayment of borrowings	(1,500,000)	(1,696,300)
Distribution paid	(483,731)	(465,070)
Payment of debt front end fee	–	(12,000)
Finance costs paid	(121,190)	(115,790)
	(2,104,921)	(719,160)
Net increase/(decrease) in cash and cash equivalents	581,292	(43,545)
Cash and cash equivalents at beginning of the period	516,036	585,217
Cash and cash equivalents at end of the period, represented by bank balances and cash	1,097,328	541,672

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1 GENERAL

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a real estate investment trust constituted by a trust deed entered into on 4 July 2003 (as amended) (the “**Trust Deed**”) 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 (the “**SGX-ST**”).

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 also the functional currency of Fortune REIT.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3 PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to the International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”), the accounting policies and methods of computation used in these condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

APPLICATION OF NEW AND AMENDMENTS TO IFRSs

In the current interim period, the Group has applied for the first time, the new and amendments to IFRSs which are mandatory and effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements. The adoption of these IFRSs has no significant impact on the Group’s results and financial position.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 **IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. In accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. IFRS 15 applies to all contracts with customers except for leases within the scope of IAS 17 *Leases*.

3.1.1 *KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 15*

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.1 **IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)**

3.1.1 *KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 15 (Continued)*

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

OVER TIME REVENUE RECOGNITION: MEASUREMENT OF PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION

The progress towards complete satisfaction of a performance obligation for charge-out collections is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group’s performance in transferring control of goods or services.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

3.1.2 SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF IFRS 15

The Group invests in a portfolio of retail shopping malls in Hong Kong for earning stable rental income under operating leases. It receives leasing rental income, charge-out collections and other income from tenants. IFRS 15 does not apply to the leasing component of base rental and other rental which are under the scope of IAS 17 *Leases*. Charge-out collections (e.g. management fee income and air conditioning income) are non-lease components which fall within IFRS 15. Each of these incomes has a stand-alone selling price for the services which are observable under the lease contracts and they are recognised as revenue only when the performance obligation is satisfied.

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39 *Financial Instruments: Recognition and Measurement*.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS (Continued)

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9 (Continued)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities’ original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

The Manager reviewed and assessed the Group’s financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date. There would be no impact on initial application of IFRS 9 as all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS (Continued)

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9 (Continued)

IMPAIRMENT UNDER ECL MODEL

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. When the financial instrument is determined to have low credit risk, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS (Continued)

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9 (Continued)

SIGNIFICANT INCREASE IN CREDIT RISK

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS (Continued)

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9 (Continued)

SIGNIFICANT INCREASE IN CREDIT RISK (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

MEASUREMENT AND RECOGNITION OF ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

3.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES ON APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS (Continued)

3.2.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF IFRS 9 (Continued)

MEASUREMENT AND RECOGNITION OF ECL (Continued)

As at 1 January 2018, the Manager reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No impairment would need to be recognised at the date of initial application, 1 January 2018.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

4 REVENUE

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (Restated)
Base rental	757,353	730,644
Other rental	95,442	97,666
Other income	526	1,867
Total rental income	853,321	830,177
Charge-out collections (Note)	124,741	126,492
	978,062	956,669

Note: Charge-out collections, which consist of payments in respect of the operation of the properties in Hong Kong which are payable by the tenants and licensees, are recognised over time as income when the services and facilities are provided. The Group billed a fixed amount for each month according to the term of the relevant lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5 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 2017: 17) properties as at 30 June 2018 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

6 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (Restated)
Building management expenses	108,593	106,760
Utilities	19,200	20,420
Government rents and rates	6,495	6,845
Property manager fee	23,938	23,380
Carpark operating expenses	14,737	13,890
Advertising and promotion	8,898	9,262
Legal and other professional fees	3,156	5,011
Leasing commission and marketing services fee	13,790	14,529
Others	7,395	7,052
	206,202	207,149

7 TRUST EXPENSES

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Trustee's fee	6,699	6,345
Other charges	2,160	1,800
	8,859	8,145

8 FINANCE COSTS

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (Restated)
Interest expenses on bank borrowings	105,176	89,387
Front end fees	13,666	16,976
Commitment fee	874	1,885
Interest rate swaps and caps expenses realised	12,140	24,397
	131,856	132,645
Change in fair value of derivative financial instruments	(42,348)	84,280
	89,508	216,925

9 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Fees to external auditor	1,384	1,644
Fees to internal auditor	161	170
Valuation fees (paid to principal valuer)	315	198

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

10 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax:		
– Hong Kong	100,983	95,834
Deferred taxation	12,432	14,615
	113,415	110,449

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2017: 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 2017: 17%) for the period. No provision for Singapore income tax has been made as Fortune REIT had no assessable profit 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.

11 EARNINGS PER UNIT

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$4,435.0 million (six months ended 30 June 2017: HK\$1,433.9 million) by the weighted average of 1,911,191,135 units (six months ended 30 June 2017: 1,905,692,529 units) outstanding during the period.

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

12 INVESTMENT PROPERTIES

	For the six months ended 30 June 2018 HK\$'000 (Unaudited)	For the year ended 31 December 2017 HK\$'000 (Audited)
Fair Value		
At beginning of the period/year	37,751,000	36,368,000
During the period/year:		
Capital expenditure incurred in upgrading investment properties	15,489	52,451
Transfer to assets of a disposal company classified as held for sale (Note (i))	-	(1,061,000)
Change in fair value of investment properties	3,011,511	2,391,549
At end of the period/year	40,778,000	37,751,000

Notes:

- (i) On 28 February 2018, Fortune REIT completed the disposal of Provident Square to an independent third party through disposal of the entire equity interest in Maulden Investments Limited for a consideration of HK\$2,000.0 million minus adjustment on the net liabilities of HK\$12.4 million as at completion date of disposal.

The sales proceeds, net of expenses, have been used to repay part of the banking facilities as disclosed in Note 15(i). The disposal results in a gain of approximately HK\$941.1 million.

Analysis of assets and liabilities over which control was lost:

	HK\$'000 (Unaudited)
Investment properties	1,061,000
Trade and other receivables	4,048
Bank balances and cash	2,603
Trade and other payables	(19,043)
Provision for taxation	(274)
Deferred tax liabilities	(13,886)
Net assets disposed of	1,034,448

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

12 INVESTMENT PROPERTIES (Continued)

Notes: (Continued)

Gain on disposal of a property company is determined as follows:

	HK\$'000 (Unaudited)
Consideration received	1,987,608
Less: Transaction cost incurred	(2,100)
Less: Divestment fee	(10,000)
Less: Net assets disposed of	(1,034,448)
	941,060

Net cash inflow arising on disposal is as follows:

	HK\$'000 (Unaudited)
Consideration received	1,987,608
Less: Cash and cash equivalents disposed of	(2,603)
	1,985,005

- (ii) In estimating the fair value of investment properties, it is the Group's policy to engage an independent qualified external valuer to perform the valuation. The Manager works closely with the valuer to establish appropriate inputs to the valuation model.

On 30 June 2018 and 31 December 2017, independent valuations were undertaken by Knight Frank Petty Limited ("**Knight Frank**"). This firm is an independent qualified external valuer not related to the Group and has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was principally arrived at using income capitalisation approach which is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rent and management fees) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield which is the capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions of similar properties in Hong Kong and adjusted to take account of the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The adopted capitalisation rates in the valuation range from 4.0% – 4.8% (31 December 2017: 4.3% – 5.0%). The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and they involve professional judgment in relation to the adjustments made by the valuer. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

- (iii) As at 30 June 2018, properties with total fair value of HK\$5,917 million (31 December 2017: HK\$10,283 million) have been mortgaged as collaterals for credit facilities granted by the banks.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Derivative financial instruments are analysed as:		
Derivatives not under hedge accounting:		
Interest rate swaps and caps	56,505	14,157
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Current assets	–	668
Non-current assets	56,734	19,279
Non-current liabilities	–	(5,790)
Current liabilities	(229)	–
	56,505	14,157

The Group uses interest rate swaps and caps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates.

DERIVATIVES NOT UNDER HEDGE ACCOUNTING:

Contracts not under hedge accounting with total notional amount of HK\$5,048.2 million (31 December 2017: HK\$6,463.2 million) as at 30 June 2018 will mature from March 2019 to April 2021 (31 December 2017: April 2018 to April 2021). These contracts have fixed interest payments at rates ranging from 0.665% to 1.85% (31 December 2017: 0.665% to 1.85%) per annum and have floating interest receipts at one or three months Hong Kong Inter-bank Offered Rate (“**HIBOR**”) or at three months HIBOR minus 1.50% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months.

The change in fair value of the derivative financial instruments not under hedge accounting amounting to a gain of HK\$42.3 million (six months ended 30 June 2017: a loss of HK\$84.3 million), is recognised in the profit or loss for the six months ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

13 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

DERIVATIVES NOT UNDER HEDGE ACCOUNTING: (Continued)

The derivative financial instruments are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the remaining duration of the instruments.

The fair value of derivative financial instruments falls under Level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

14 TRADE AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
(a) Trade receivables:		
Outside parties	31,811	29,849
Related parties (Note 22)	2,151	4,880
	33,962	34,729
(b) Other receivables and prepayments:		
Security deposits	25,669	25,669
Other receivables	3,899	204,431
Prepayments	1,618	2,129
	31,186	232,229
	65,148	266,958

14 TRADE AND OTHER RECEIVABLES (Continued)

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0–30 days	33,635	34,548
31–90 days	317	170
Over 90 days	10	11
	33,962	34,729

15 BORROWINGS

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Secured term loans	2,000,000	3,100,000
Unsecured term loans	7,355,060	7,355,060
Unsecured revolving loans	–	400,000
	9,355,060	10,855,060
Less: unamortised front end fees	(58,183)	(71,849)
	9,296,877	10,783,211
Carrying amount repayable:		
On demand or within one year	–	1,496,788
More than one year, but not more than two years	1,150,729	–
More than two years, but not more than five years	8,146,148	9,286,423
	9,296,877	10,783,211
Less: Amount due within one year shown under current liabilities	–	(1,496,788)
	9,296,877	9,286,423

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15 BORROWINGS (Continued)

- (i) On 28 February 2018, an existing secured loan facilities amounting HK\$1,100 million was early repaid due to the disposal of Provident Square as disclosed in Note 12(i).
- (ii) As at 30 June 2018, total committed loan facilities amounted to HK\$10,055.1 million (31 December 2017: HK\$11,155.1 million), bear interest at HIBOR plus a margins ranging from 0.98% to 1.30% (31 December 2017: 0.98% to 1.40%).

In addition, the Trustee (in its capacity as Trustee of Fortune REIT) has provided guarantee for all the loan facilities.

- (iii) The front end fees are amortised over the respective loan periods. The movements in the front end fees and accumulated amortisation are as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
At beginning of the period/year	116,088	130,000
Addition	–	12,000
Reversal during the period/year	(12,650)	(25,912)
At end of the period/year	103,438	116,088
Movement in accumulated amortisation:		
At beginning of the period/year	(44,239)	(38,607)
Amortised during the period/year	(10,876)	(24,940)
Reversal during the period/year	9,860	19,308
At end of the period/year	(45,255)	(44,239)
Net book values	58,183	71,849

16 TRADE AND OTHER PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
(a) Trade payables:		
Tenants' deposits		
– Outside parties	494,465	495,950
– Related parties (Note 22)	21,708	15,184
Rental received in advance		
– Outside parties	30,636	27,247
	546,809	538,381
(b) Other payables:		
Trustee's fee	2,295	2,232
Deposits receivable for assets of a disposal company classified as held for sale		
Other expenses	–	200,000
– Outside parties	118,887	120,053
– Related parties (Note 22)	56,411	55,719
– Manager (Note 22)	53,776	45,076
Interest payable	433	3,875
Others	2,684	2,390
	234,486	429,345
	781,295	967,726

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 end of the reporting period based on lease term amounted to HK\$323.8 million (31 December 2017: HK\$308.7 million) as at 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

17 UNITS IN ISSUE AND TO BE ISSUED

	Number of units '000	HK\$'000
Balance as at 1 January 2017	1,902,128	7,879,828
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 30 September 2017	9,148	83,306
Balance in issue as at 31 December 2017	1,911,276	7,963,134
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 October to 31 December 2017 (Note (i))	3,072	29,348
Balance as at 31 December 2017	1,914,348	7,992,482
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2018	2,947	27,925
Balance in issue as at 30 June 2018	1,917,295	8,020,407

Note:

(i) Manager's base fee payable to the Manager is in the form of units. On 2 January 2018, Fortune REIT issued 3,072,278 units at an issue price of HK\$9.553 per unit to the Manager as base fee for the period from 1 October 2017 to 31 December 2017.

18 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

Net asset value per unit as at 30 June 2018 is calculated based on the net assets attributable to unitholders of the Group of HK\$30,845.5 million and the total number of 1,917,295,034 units in issue as at 30 June 2018.

Net asset value per unit as at 31 December 2017 was calculated based on the net assets attributable to unitholders of the Group of HK\$26,887.8 million and the total number of 1,914,348,385 units in issue and to be issued as at 31 December 2017, including the new units issued as payment of Manager's base fee in January 2018.

19 NET CURRENT LIABILITIES

As at 30 June 2018, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$236.2 million (31 December 2017: HK\$1,146.2 million).

20 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2018, the Group's total assets less current liabilities amounted to HK\$40,598.5 million (31 December 2017: HK\$36,624.1 million).

21 CAPITAL COMMITMENTS

As at 30 June 2018, the Group had capital commitments in respect of investment properties which were authorised but not contracted for of HK\$77.5 million (31 December 2017: HK\$261.9 million) and contracted but not provided for of HK\$218.4 million (31 December 2017: HK\$67.2 million).

22 CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with connected and related parties:

	Notes	Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Rent and rental related income from			
ARA Asset Management (Fortune) Limited	(e)	443	409
A.S. Watson Retail (HK) Limited	(c)	18,943	17,823
BIGBOXX.com Limited	(c)	1,225	1,206
Cheung Kong Property Development Limited	(b)	17,636	21,329
Citybase Property Management Limited	(b)	1,044	1,314
Hang Seng Bank Limited	(d)	9,846	9,674
Hutchison Global Communications Limited	(c)	–	767
Hutchison International Limited	(c)	1,495	1,475
Hutchison Telephone Company Limited	(c)	4,700	4,591
Hutchison Telecommunication Services Limited	(c)	42	–
PARKnSHOP (HK) Limited	(c)	74,723	76,605
Sino China Enterprises Limited	(b)	9	8
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	(d)	4,933	4,931
Towerich Limited	(b)	34	33

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(b)	4,609	4,344
Property management fee			
Citybase Property Management Limited	(b)	504	496
Goodwell-Fortune Property Services Limited	(b)	23,829	23,045
Goodwell Property Management Limited	(b)	88	79
Whampoa Property Management Limited	(b)	108	335
Leasing commission and marketing services fee			
Goodwell-Fortune Property Services Limited	(b)	13,221	14,283
Advertising and promotion expenses			
Metro Broadcast Corporation Limited	(c)	–	258
Trustee's fee			
HSBC Institutional Trust Services (Singapore) Limited		6,699	6,345
Manager's divestment fee			
ARA Asset Management (Fortune) Limited	(e)	10,000	–
Manager's base fee			
ARA Asset Management (Fortune) Limited	(e)	58,425	54,950
Manager's performance fee			
ARA Asset Management (Fortune) Limited	(e)	23,276	22,496
Valuation and other fees			
Knight Frank	(f)	315	198

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

The following are the balances with connected and related parties at the end of the reporting period:

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade receivables with connected and related companies are as follows:			
A.S. Watson Retail (HK) Limited	(c)	1	1
Cheung Kong Property Development Limited	(b)	1,914	4,619
Hang Seng Bank Limited	(d)	1	–
Hutchison Telephone Company Limited	(c)	1	50
PARKnSHOP (HK) Limited	(c)	234	210
		2,151	4,880
Other payables with connected and related companies are as follows:			
ARA Asset Management (Fortune) Limited	(e)	53,776	45,076
Citybase Property Management Limited	(b)	27,763	26,261
E-Park Parking Management Limited	(b)	787	765
Goodwell-Fortune Property Services Limited	(b)	7,426	10,249
Goodwell Property Management Limited	(b)	20,435	18,444
		56,411	55,719
		110,187	100,795

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Deposits placed with the Group for the lease of the Group's properties			
ARA Asset Management (Fortune) Limited	(e)	241	240
A.S. Watson Retail (HK) Limited	(c)	1,601	2,472
Citybase Property Management Limited	(b)	621	599
Hang Seng Bank Limited	(d)	5,398	5,138
HSBC	(d)	2,138	2,132
Hutchison Telecommunication Services Limited	(c)	5	36
Hutchison Telephone Company Limited	(c)	1,592	1,531
PARKnSHOP (HK) Limited	(c)	10,089	3,013
Sino China Enterprises Limited	(b)	5	5
Towerich Limited	(b)	18	18
		21,708	15,184

Notes:

- (a) Significant holder of Fortune REIT (as defined in the REIT Code) being Focus Eagle Investments Limited (the "**Significant Holder**"), which holds approximately 21% of the units of Fortune REIT as at 30 June 2018.
- (b) These companies are subsidiaries of CK Asset Holdings Limited ("**CK Asset**") and CK Asset is the holding company of the Significant Holder.
- (c) These companies are associated companies (as defined in the REIT code) of the Significant Holder.
- (d) These companies are fellow subsidiaries of the Trustee.
- (e) This company is the Manager of Fortune REIT.
- (f) Knight Frank was the principal valuer of investment properties.

In addition, the Trustee (in its capacity as trustee of Fortune REIT) has provided guarantees for all loan facilities granted to the Group.

23 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in these condensed consolidated financial statements, which have no material effect on previously reported profit, to conform with the current period's presentation.

For the six months ended 30 June 2018, (i) the Manager reviewed and reassessed the nature of the revenue and considered that income amounting to HK\$45.6 million (for the six months ended 30 June 2017: HK\$46.6 million) relates to the reimbursement of expenditure of the Group rather than an output of the Group's ordinary activities in exchange for consideration and therefore this amount is netted off against relevant expenditures and; (ii) change in fair value of derivative financial instruments has been grouped under finance costs as per note 8 instead of being presented as a line item in the condensed consolidated statement of profit or loss and other comprehensive income.

PERFORMANCE TABLE

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Net assets attributable to unitholders (HK\$'000)	30,845,519	26,887,767
Net asset value per unit (HK\$)	16.09	14.05
The highest traded price during the period/year (HK\$)	9.87	9.82
The highest premium of the trade price to net asset value ¹	N.A.	N.A.
The lowest traded price during the period/year (HK\$)	9.01	8.52
The highest discount of the trade price to net asset value	44.0%	39.4%
The net yield per unit ²	5.8%	5.3%

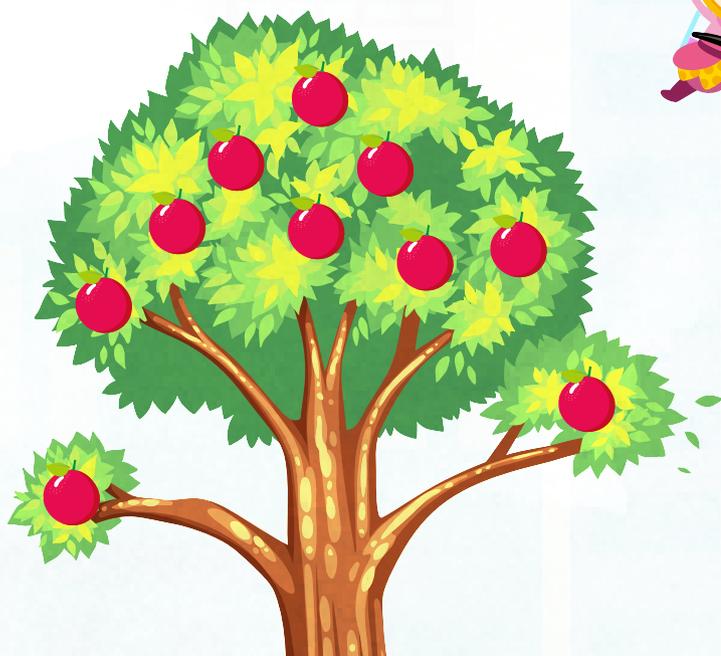
Notes:

- The highest traded price is lower than the net asset value per unit as at the end of the period. Accordingly, premium of the traded price to net asset value per unit had not been recorded.*
- The net yield per unit for the six months ended 30 June 2018 is an annualised yield based on the distribution per unit for the six months ended 30 June 2018 over the last traded price for the period.*

The net yield per unit for the year ended 31 December 2017 is based on the distribution per unit for the year ended 31 December 2017 over the last traded price for the period.

PORTFOLIO MAP & SUMMARY

物業組合分佈及總覽



PORTFOLIO SUMMARY 物業總覽

As at 30 June 2018, 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.

於2018年6月30日，置富產業信託的物業組合由16個分佈於香港多個區域的零售商場及物業組成，其中包括約300萬平方呎的零售樓面及2,713個車位。

	Property	物業	Gross Rentable Area 可出租總面積 (Sq.ft.) (平方呎)	Valuation 估值 (HK\$ million) (百萬港元)	Occupancy 出租率	No. of car parking lots 車位數目
1	Fortune City One	置富第一城	414,469	8,580	98.6%	653
2	Fortune Kingswood	置富嘉湖	665,244	8,069	94.0%	622
3	Ma On Shan Plaza	馬鞍山廣場	310,084	5,917	99.6%	290
4	Metro Town	都會駅	180,822	3,816	100.0%	74
5	Fortune Metropolis	置富都會	332,168	2,779	83.1%	179
6	Laguna Plaza	麗港城商場	163,203	2,624	98.1%	150
7	Belvedere Square	麗城薈	276,862	2,534	99.5%	329
8	Waldorf Avenue	華都大道	80,842	1,795	100.0%	73
9	Caribbean Square	映灣薈	63,018	1,231	100.0%	117
10	Jubilee Square	銀禧薈	170,616	952	96.2%	97
11	Smartland	荃薈	123,544	773	95.6%	67
12	Tsing Yi Square	青怡薈	78,836	748	100.0%	27
13	Centre de Laguna	城中薈	43,000	322	100.0%	N.A
14	Hampton Loft	凱帆薈	74,734	305	100.0%	35
15	Lido Avenue	麗都大道	9,836	205	100.0%	N.A
16	Rhine Avenue	海韻大道	14,604	128	100.0%	N.A
	Total/Overall Average	合計/總平均值	3,001,882	40,778	96.0%	2,713



新界
NEW TERRITORIES

九龍
KOWLOON

大嶼山
LANTAU ISLAND

香港島
HONG KONG



Manager 管理人

ARA

ARA Asset Management (Fortune) Limited
置富資產管理有限公司



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