

# FORTUNE

置富產業信託 REIT

Sharing Success  
Accumulating Fortune  
毗鄰互惠 穩健置富

Stock Code 股份代號 : 778



## About Fortune REIT

Established in 2003, 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, supplemented or otherwise modified from time to time).

It is the first REIT to hold assets in Hong Kong and is currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

Fortune REIT holds a portfolio of 16 retail properties in Hong Kong, comprising approximately 3.0 million square feet ("**Sq.ft.**") of retail space and 2,713 car parking lots.

## About the Manager

Fortune REIT is managed by ARA Asset Management (Fortune) Limited (the "**Manager**"), the manager of Fortune REIT. The Manager is a wholly-owned subsidiary of ARA Asset Management Limited, a leading APAC real assets fund manager with a global reach.



## 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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# Financial Highlights

## Revenue

(HK\$ million)

**951.8**

Six months ended  
30 June 2020

**974.3**

Six months ended  
30 June 2019

## Net Property Income

(HK\$ million)

**718.2**

Six months ended  
30 June 2020

**748.7**

Six months ended  
30 June 2019

	Six months ended 30 June 2020	Six months ended 30 June 2019	% change
Revenue (HK\$ million)	951.8	974.3	-2.3%
Net property income (HK\$ million)	718.2	748.7	-4.1%
Cost-to-revenue ratio	22.2%	20.8%	+1.4%
Income available for distribution (HK\$ million)	489.7	505.4	-3.1%
Distribution to unitholders (HK\$ million)	440.7	505.4	-12.8%
Distribution per unit ("DPU") (HK cents)	22.60	26.13	-13.5%



## Net Asset Value Per Unit

(HK\$)

15.37

As at  
30 June 2020

16.81

As at  
31 December 2019

## Property Valuation

(HK\$ million)

40,327

As at  
30 June 2020

42,820

As at  
31 December 2019

	As at 30 June 2020	As at 31 December 2019	% change
Net asset value per unit (HK\$)	15.37	16.81	-8.6%
Property valuation (HK\$ million)	40,327	42,820	-5.8%
Gearing ratio <sup>1</sup>	21.6%	19.8%	+1.8%

Note:

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



# Three Growth Strategies

## Yield-accretive acquisition

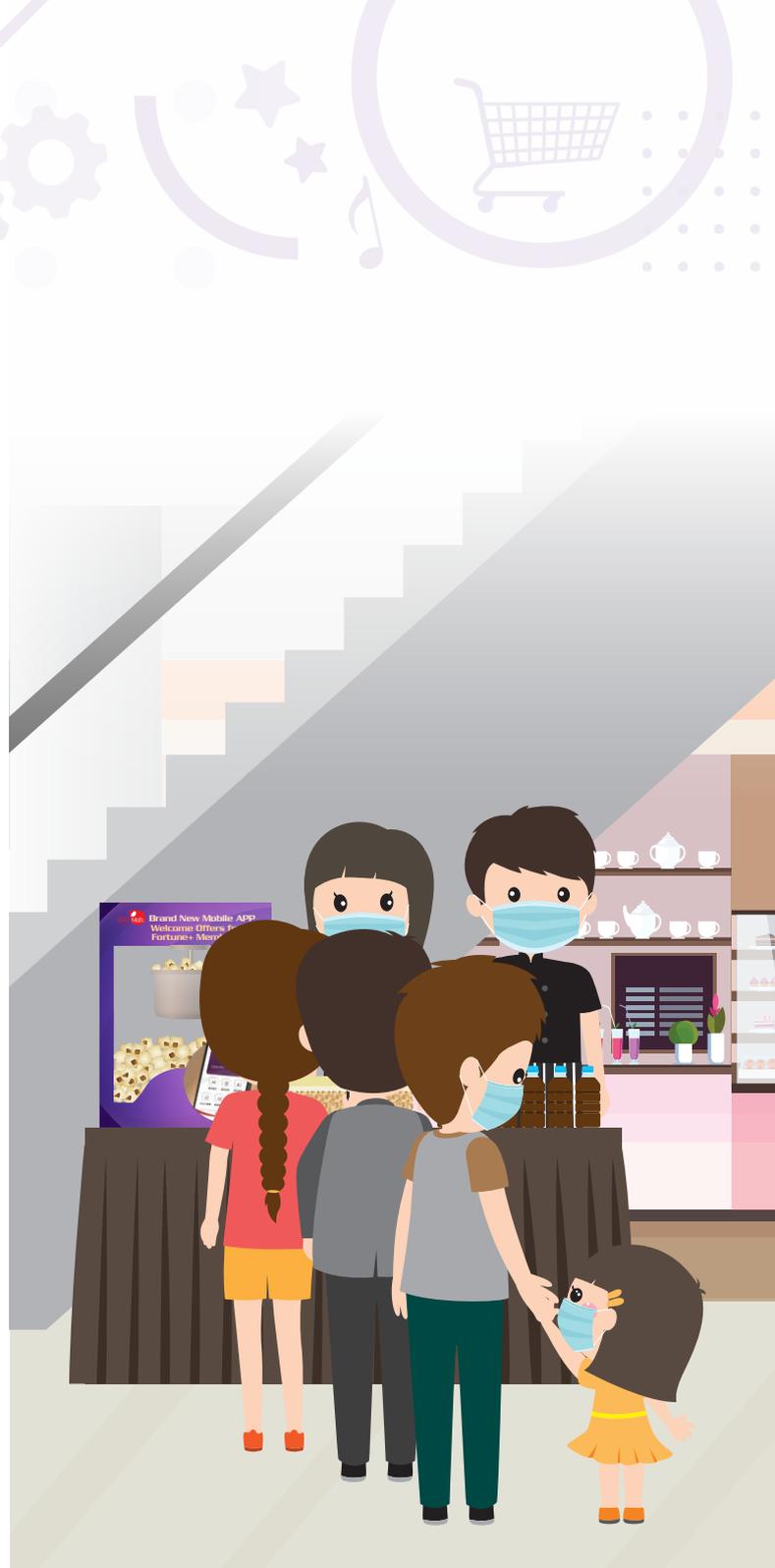
Established in 2003, Fortune REIT has been growing from strength to strength by acquiring 13 properties over the past 16 years. We will continue to expand our portfolio prudently with an aim to deliver attractive returns to Unitholders.

## Active leasing management

In an effort to counter the dampened economic environment and to ensure financial stability during these challenging times, Fortune REIT has focused on retaining existing tenants by striking a balance between rental reversion and occupancy. As such, tenant retention remained strong at 77% during the Reporting Period while portfolio occupancy stood at a healthy level of 95% as at 30 June 2020.

## Asset enhancement initiatives ("AEIs")

To optimize the value of assets, Fortune REIT constantly strengthens its portfolio through AEIs. Further to the successful AEIs completion at +WOO Phase 1 in 2019, the renovation at +WOO Phase 2 is currently under planning. It aims to further strengthen +WOO's position as the leading one-stop leisure and shopping destination in Tin Shui Wai.



## Launch of Fortune Malls Mobile APP to enhance shopping experience

Fortune REIT successfully launched the Fortune Malls APP in June 2020, providing one-stop shopping, dining and leisure information, accessible at the convenience of shoppers across its 16 malls.

Various exciting features have been introduced including the Fortune+ membership scheme, shoppers' guide and promotional offers of its tenants. The Fortune Malls APP aims to attract shoppers through rewards, special offers and events information with the aim of boosting mall traffic and spending. It also helps to enhance the business environment of tenants, delivering a better and attentive shopping experience to residents in the neighbourhood.



# Management Discussion and Analysis

## Financial Review

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

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

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

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

## Index inclusion signifies a key milestone

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

## Capital Management

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

Fortune REIT has obtained both secured and unsecured loan facilities. It possesses good financial flexibility as 15 of its 16 investment properties are unencumbered. As at 30 June 2020, approximately 77% of total committed debts were unsecured. The only secured loan facility is over Ma On Shan Plaza which carried a fair value of HK\$5,817 million as at 30 June 2020. HSBC Institutional Trust Services (Asia) Limited, as the trustee of Fortune REIT (the "Trustee"), has provided guarantees for all loan facilities.



## Management Discussion and Analysis

Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements. As at 30 June 2020, available liquidity stood at HK\$926.5 million (31 December 2019: HK\$530.4 million), comprising committed but undrawn facilities of HK\$700.0 million (31 December 2019: HK\$394.0 million) and cash and bank deposits of HK\$226.5 million (31 December 2019: HK\$136.4 million).

Given that certain interest rate hedging contracts will be expiring in July and August 2020, additional interest rate swaps were entered during the Reporting Period to maintain an appropriate level of protection against interest rate fluctuations. As at 30 June 2020, interest cost for approximately 68% (31 December 2019: 53%) of Fortune REIT's outstanding debts were hedged through interest rate swaps.

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

### Portfolio Valuation

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$40,327 million as at 30 June 2020, down by 5.8% from the valuation as at 31 December 2019. The drop was attributable to a lower rental projection adopted on the back of a softer retail environment. Jones Lang LaSalle Limited, the principal valuer, has adopted the valuation methodology of income capitalisation approach and cross-referenced with direct comparison approach. The average capitalisation rate remained the same at 4.3%. The lower valuation has resulted in a revaluation loss of HK\$2,516.1 million for the Reporting Period.



## Portfolio Highlights

As at 30 June 2020, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 3.0 million Sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq.ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	8,343	96.6%	653
+WOO	665,244	8,187	95.1%	622
Ma On Shan Plaza	310,084	5,817	88.7%	290
Metro Town	180,822	3,698	97.2%	74
Fortune Metropolis	332,168	2,642	92.5%	179
Belvedere Square	276,862	2,576	93.5%	329
Laguna Plaza	163,203	2,522	98.7%	150
Waldorf Avenue	80,842	1,787	99.3%	73
Caribbean Square	63,018	1,178	100%	117
Jubilee Square	170,616	952	95.4%	97
Smartland	123,544	817	96.0%	67
Tsing Yi Square	78,836	811	96.6%	27
Centre de Laguna	43,000	338	98.5%	N.A.
Hampton Loft	74,734	316	100%	35
Lido Avenue	9,836	209	100%	N.A.
Rhine Avenue	14,604	134	100%	N.A.
<b>Total/Overall average</b>	<b>3,001,882</b>	<b>40,327</b>	<b>95.0%</b>	<b>2,713</b>

# Management Discussion and Analysis

## Business Review

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

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

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

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



## Enhancement Initiatives

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

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

## Outlook

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

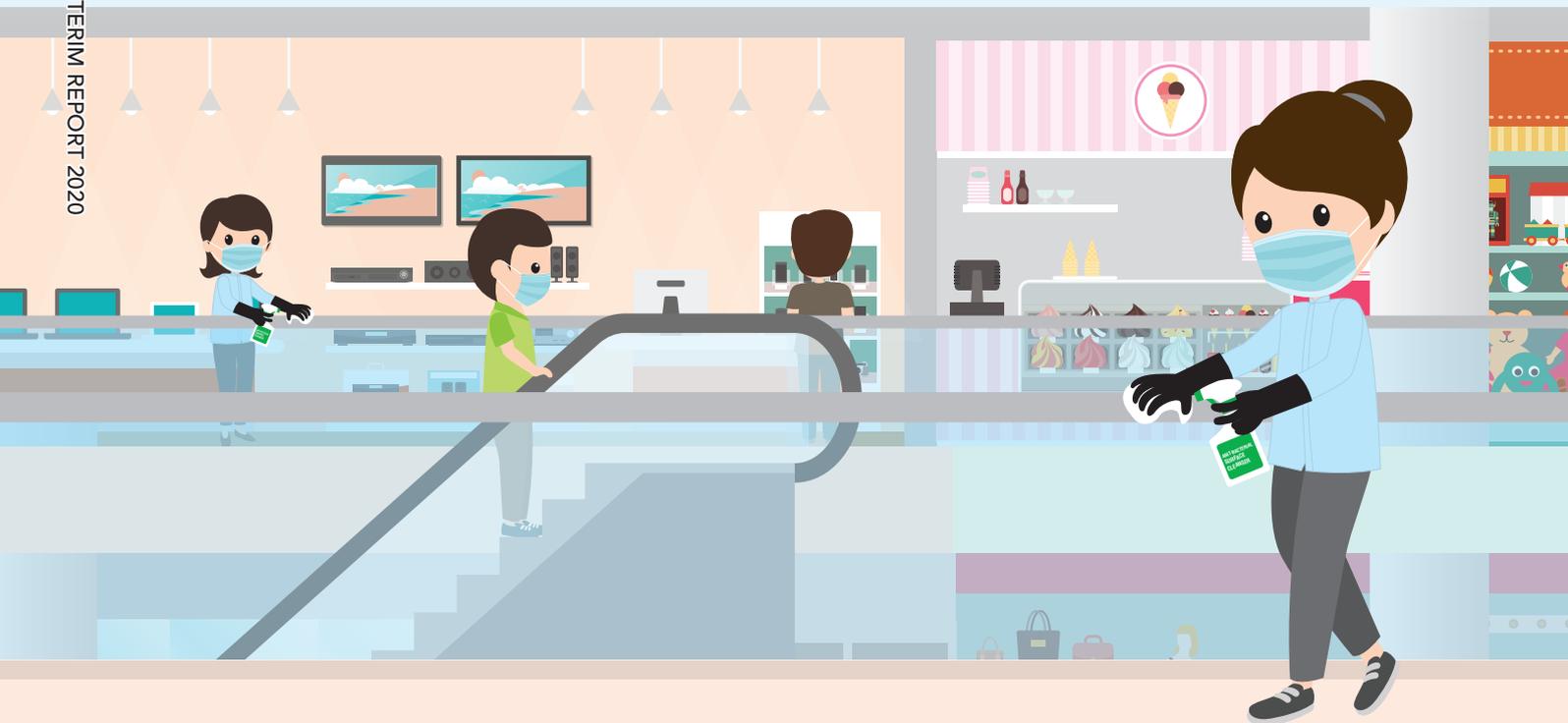
After the prolonged local social incidents since June 2019, Hong Kong is experiencing a second major setback from the pandemic. The economy has fallen into a deep recession where GDP decreased by 8.9% year-on-year for the first quarter of 2020, with private consumption dropping by 10.1%. The unemployment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

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

# Corporate Governance

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

Fortune REIT is a real estate investment trust listed on the SEHK. Its units have been voluntarily delisted from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and it was de-authorised by the Monetary Authority of Singapore (the “**MAS**”) on 21 October 2019. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong, including the code provisions set out in the Corporate Governance Code (the “**CG Code**”) of the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”).





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

During the Reporting Period, the Trust Deed and the Compliance Manual have been amended as set out below:

### Amendments to the Trust Deed

Following the voluntary delisting from the SGX-ST, the MAS de-authorisation and the change of trustee, the Trust Deed constituting Fortune REIT has been amended. The trust deed amendments were effective from 10 January 2020.

### Amendments to the Compliance Manual

The Compliance Manual has been amended to update the criteria for independence of Independent Non-Executive Directors (“**INEDs**”) pursuant to the latest requirements under the Listing Rules and to remove the Singapore requirements that are no longer applicable to Fortune REIT as a result of the MAS de-authorisation. The amendments were approved in the board meeting of the Manager held on 4 February 2020.

### 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.

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 2020, the Board comprised nine members, eight of whom are Non-Executive Directors (“**NEDs**”). Four of the NEDs are 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 controls 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 Listing Rules. Specific enquiry has been made with the Management Persons, who confirmed that they have complied with the required standard set out in the Units Dealing Code during the Reporting Period.



## Changes of Directors' Information

Subsequent to publication of the Annual Report 2019 of Fortune REIT, the Manager received notifications regarding the following changes of Directors' information:

- Mr. Lim Hwee Chiang has been appointed as a non-executive director of Minterest Holdings Pte. Ltd, a Singapore-based crowdfunding platform, effective from 28 February 2020.
- Ms. Eirene Yeung is the Deputy Chairman of the General Committee of The Chamber of Hong Kong Listed Companies for the year 2020-2021 and has been appointed as a member of the Main Board and GEM Listing Review Committees effective from 10 July 2020.
- Mr. Ma Lai Chee, Gerald has been appointed as the Vice Chairman and independent non-executive Director of Goldin Financial Holdings Limited (Stock Code: 530, which is listed in Hong Kong) effective 23 July 2020 and re-designated to Vice Chairman and non-executive Director on 23 July 2020.
- Ms. Cheng Ai Phing has been appointed to the Board of Citibank Singapore Limited, a division of Citibank N.A. of the United States, with effect from 1 May 2020. She has also been appointed as External Member of the Audit & Risk Committee of The Asian Infrastructure Investment Bank effective on 13 April 2020 and as Member of Singapore Stock Exchange Appeal Committee on 1 April 2020. Furthermore, Ms. Cheng was re-appointed as a member of the NTUC Education & Training Fund Board of Trustees in March 2020. On 8 June 2020, Ms. Cheng was appointed to The Accounting & Corporate Regulatory Authority of Singapore – Technical Advisory Panel.

## 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 tables sets 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 2020 HK\$'000	Rental deposit received as at 30 June 2020 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Leasing transactions	2,562	1,463
A.S. Watson Retail (HK) Limited	Associated company of a significant holder <sup>1</sup>	Leasing and licensing transactions	16,243	1,232
Cheung Kong Property Development Limited	Associate of a significant holder <sup>1</sup>	Leasing and licensing transactions	13,629	–
Citybase Property Management Limited	Associate of a significant holder <sup>1</sup>	Leasing transactions	1,146	638
Hutchison International Limited	Associated company of a significant holder <sup>1</sup>	Leasing transactions	1,624	–
Hutchison Telephone Company Limited	Associated company of a significant holder <sup>1</sup>	Licensing transactions	4,690	1,412
PARKnSHOP (HK) Limited	Associated company of a significant holder <sup>1</sup>	Leasing and licensing transactions	75,790	2,297
Towerich Limited	Associate of a significant holder <sup>1</sup>	Licensing transactions	36	20
<b>Total</b>			<b>115,720</b>	<b>7,062</b>

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 2020 HK\$'000
Citybase Property Management Ltd	Associate of a significant holder <sup>1</sup>	Property management and operations	538
E-Park Parking Management Limited	Associate of a significant holder <sup>1</sup>	Carpark lease agency fee	4,661
Goodwell-Fortune Property Services Limited	Associate of a significant holder <sup>1</sup>	Property and lease management fee and marketing service fee	31,976
Goodwell Property Management Limited	Associate of a significant holder <sup>1</sup>	Property management and operations	100
<b>Total</b>			<b>37,275</b>

Note:

- The significant holder being Focus Eagle.

## Connected Party Transactions

### 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 2020 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Manager's fee	84,404
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee's fee	6,377
Jones Lang LaSalle Limited	Principal valuer	Valuation fees	154
<b>Total</b>			<b>90,935</b>

## 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 Group<sup>1</sup> (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 2020 HK\$'000	Rental deposit received as at 30 June 2020 HK\$'000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing and licensing transactions	10,766	5,722
The Hongkong and Shanghai Banking Corporation Limited (“ <b>HSBC</b> ”)	Trustee Connected Persons	Leasing and licensing transactions	5,038	2,106
<b>Total</b>			<b>15,804</b>	<b>7,828</b>

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 2020 is 1,945,863,309 units.

## Holdings of Significant Unitholders and Other Unitholders

As at 30 June 2020, 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 <sup>1</sup>	413,074,684	21.23%	–	–
CK Asset Holdings Limited (“CK Asset”) <sup>1</sup>	–	–	525,630,684	27.01%

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 2020:

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 <sup>1</sup>	112,556,000	5.78%	–	–
Schroders Plc <sup>2</sup>	–	–	178,039,000	9.15%

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 178,039,000 units of which:
  - 53,361,000 units were held by Schroder Investment Management Limited;
  - 55,781,000 units were held by Schroder Investment Management (Singapore) Ltd; and
  - 68,897,000 units were held by Schroder Investment Management (Hong Kong) Limited.



## Interests of the Manager

As at 30 June 2020, the Manager held 14,451,309 units, or approximately 0.74% 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 2020 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 <sup>1</sup>	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.



## Disclosure of Interests

### Holdings of the Other Connected Persons

HSBC Group, being the Trustee Connected Persons of Fortune REIT was deemed to be interested in 1,019,300 units, or approximately 0.05% of the issued units of Fortune REIT as at 30 June 2020.

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 2020.

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 2020 and 31 December 2019:

- (a) Schroders Plc was beneficially interested in 178,039,000 units as at 30 June 2020 and 208,798,400 units as at 31 December 2019, and ceased to be significant holder of Fortune REIT on 5 May 2020;
- (b) The Manager was beneficially interested in 14,451,309 units as at 30 June 2020 and 6,130,226 units as at 31 December 2019; and
- (c) HSBC Group was deemed to be beneficially interested in 1,019,300 units as at 30 June 2020 and did not hold any beneficial interest in any units of Fortune REIT as at 31 December 2019.

### Employees

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

### New Units Issued

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

- On 3 January 2020, 3,574,231 new units were issued to the Manager at the price of HK\$9.0590 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$32.4 million payable by Fortune REIT for the period from 1 October 2019 to 31 December 2019.
- On 1 April 2020, 4,746,852 new units were issued to the Manager at the price of HK\$6.7470 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$32.0 million payable by Fortune REIT for the period from 1 January 2020 to 31 March 2020.

### Repurchase, Sale or Redemption of Units

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

### Public Float

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2020.

# Corporate Information

## Manager

### ARA Asset Management (Fortune) Limited

Unit 901, Level 9,  
Fortune Metropolis,  
6 Metropolis Drive,  
Hung Hom, Kowloon,  
Hong Kong  
Tel: +852 2169 0928  
Fax: +852 2169 0968

5 Temasek Boulevard  
#12-01, Suntec Tower Five,  
Singapore 038985  
Tel: +65 6835 9232  
Fax: +65 6835 9672

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Unit Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

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## Directors of the Manager

CHUI Sing Loi (alias TSUI Sing Loi), *Chairman and Independent Non-Executive Director*  
CHIU Kwok Hung, Justin, *Non-Executive Director*  
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  
CHIANG Wai Ming

## Legal Adviser of the Manager

Baker McKenzie

## Auditor

Deloitte Touche Tohmatsu  
*Registered Public Interest Entity Auditors*

## Stock Code

778

## Website and Email

[www.fortunereit.com](http://www.fortunereit.com)  
[www.fortunemalls.com.hk](http://www.fortunemalls.com.hk)  
[enquiries@fortunereit.com](mailto:enquiries@fortunereit.com)

# 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**") and its subsidiaries set out on pages 28 to 55, which comprises the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders, 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.

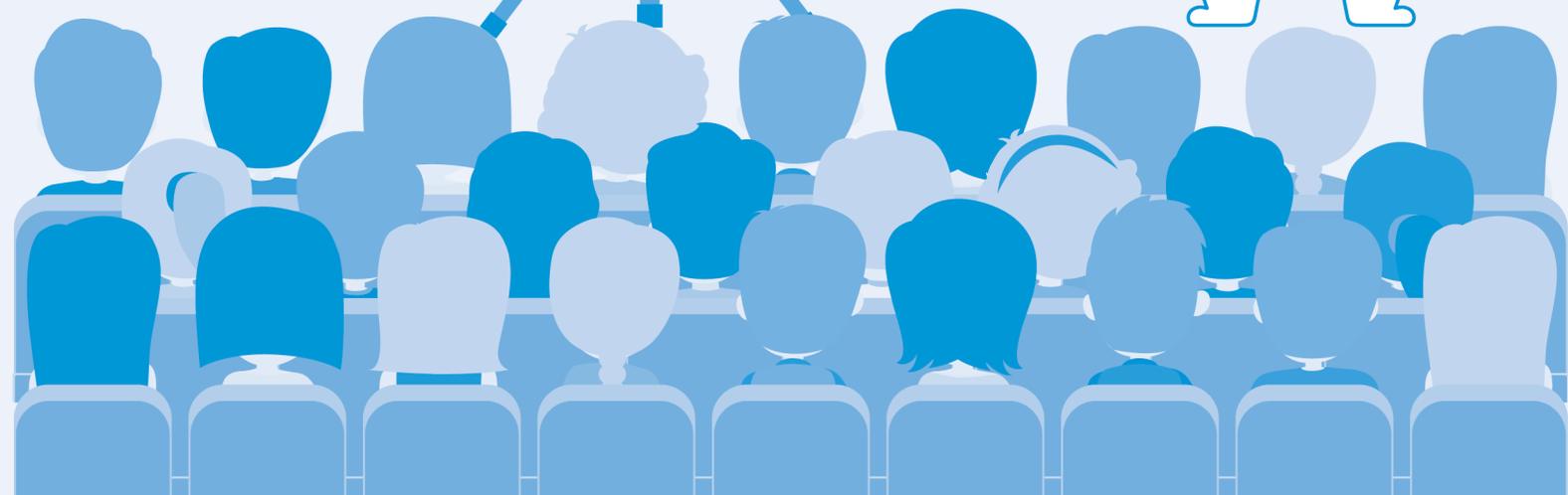
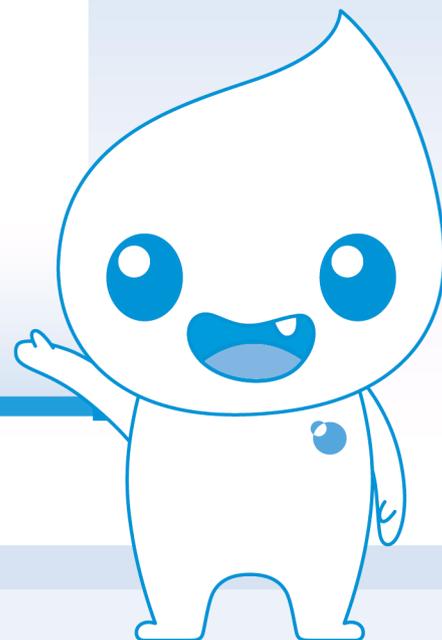
## Conclusion

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  
24 July 2020

# Financial Statements

- 28** Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 29** Distribution Statement
- 31** Condensed Consolidated Statement of Financial Position
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- 34** Condensed Consolidated Statement of Cash Flows
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# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Revenue</b>	4	<b>951,822</b>	974,274
Property operating expenses	6	(211,412)	(202,351)
<b>Net property income before manager's performance fee</b>		<b>740,410</b>	771,923
Manager's performance fee		(22,215)	(23,175)
<b>Net property income</b>		<b>718,195</b>	748,748
Manager's base fee		(62,189)	(63,026)
Foreign currency exchange gain, net		18	37
Interest income		98	645
Trust expenses	7	(8,441)	(11,272)
Change in fair value of investment properties	12	(2,516,123)	641,331
Finance costs	8	(292,290)	(181,407)
<b>(Loss)/profit before taxation and transactions with unitholders</b>		<b>(2,160,732)</b>	1,135,056
Income tax expense	10	(106,715)	(113,301)
<b>(Loss)/profit for the period, before transactions with unitholders</b>		<b>(2,267,447)</b>	1,021,755
Distributions to unitholders		(440,745)	(505,449)
<b>Net comprehensive (expense)/income for the period</b>		<b>(2,708,192)</b>	516,306
<b>Basic (loss)/earnings per unit (HK cents)</b>	11	<b>(116.49)</b>	52.90

# Distribution Statement

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>(Loss)/profit for the period, before transactions with unitholders</b>		<b>(2,267,447)</b>	1,021,755
<b>Adjustments:</b>			
Manager's base fee		<b>62,189</b>	63,026
Change in fair value of investment properties	12	<b>2,516,123</b>	(641,331)
Change in fair value of derivative financial instruments	8	<b>152,549</b>	53,010
Non-cash finance costs		<b>12,082</b>	–
Deferred tax	10	<b>14,221</b>	–
Foreign currency exchange gain		–	(37)
Other non-tax deductible trust expenses		–	9,026
<b>Income available for distribution (note (i))</b>		<b>489,717</b>	505,449
Percentage of distribution to unitholders		<b>90%</b>	100%
<b>Distribution to unitholders (note (ii))</b>		<b>440,745</b>	505,449
<b>Distribution per unit (HK cents) (note (iii))</b>		<b>22.60</b>	26.13

# Distribution Statement

For the six months ended 30 June 2020

Notes:

- (i) Starting from the financial year ending 31 December 2020, the distribution policy of Fortune REIT is to distribute not less than 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in the trust deed dated on 4 July 2003 (as amended, supplemented, or otherwise modified from time to time) (the "Trust Deed") ("**Net Profit After Tax**"). Income available for distribution for the six months ended 30 June 2020 is HK\$489.7 million.

In respect of the financial years prior to and including the financial year ended 31 December 2019, the distribution policy of Fortune REIT is to distribute, 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 ("**Net Tax-Exempt Income**"); and (b) 90% of Net Profit After Tax. Net Tax-Exempt Income and Net Profit After Tax for the six months ended 30 June 2019 was HK\$505.4 million and HK\$466.8 million, respectively. Accordingly, income available for distribution for the six months ended 30 June 2019, based on the Net Tax-Exempt Income, was HK\$505.4 million.

- (ii) Distribution amount to unitholders of HK\$440.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$505.4 million), representing a payout ratio of 90% (30 June 2019: 100%) of Fortune REIT's income available for distribution of HK\$489.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$505.4 million).

- (iii) The distribution per unit of 22.60 HK cents for the six months ended 30 June 2020 is calculated based on the interim distribution to unitholders amount of HK\$440.7 million over 1,950,177,768 units, represented issued units as at 30 June 2020 of 1,945,863,309 units plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2020 of 4,314,459 units.

The distribution per units of 26.13 HK cents for the six months ended 30 June 2019 is calculated based on interim distribution to unitholders amount of HK\$505.4 million over 1,933,977,332 units, represented issued units as at 30 June 2019 of 1,930,988,000 units plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2019 of 2,989,332 units.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	12	40,327,000	42,820,000
Derivative financial instruments	13	–	1,327
<b>Total non-current assets</b>		<b>40,327,000</b>	42,821,327
<b>Current assets</b>			
Trade and other receivables	14	91,214	85,496
Bank balances and cash		226,531	136,375
Derivative financial instruments	13	–	6,291
<b>Total current assets</b>		<b>317,745</b>	228,162
<b>Total assets</b>		<b>40,644,745</b>	43,049,489
<b>Non-current liabilities</b>			
Derivative financial instruments	13	143,430	13,684
Borrowings	15	4,985,500	4,979,800
Deferred tax liabilities		514,992	500,771
<b>Total non-current liabilities</b>		<b>5,643,922</b>	5,494,255
<b>Current liabilities</b>			
Trade and other payables	16	702,946	750,586
Derivative financial instruments	13	15,185	–
Borrowings	15	3,781,690	3,499,379
Distribution payable		440,745	488,314
Provision for taxation		82,140	192,835
<b>Total current liabilities</b>		<b>5,022,706</b>	4,931,114
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>10,666,628</b>	10,425,369
<b>Net assets attributable to unitholders</b>		<b>29,978,117</b>	32,624,120
<b>Units in issue and to be issued ('000)</b>	17	<b>1,950,178</b>	1,941,116
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	18	<b>15.37</b>	16.81

# Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2020

	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 2020 (Audited)	8,241,215	(286,279)	24,669,184	32,624,120
<b>OPERATIONS</b>				
Loss for the period, before transactions with unitholders	–	–	(2,267,447)	(2,267,447)
Distribution paid and payable of 22.60 HK cents per unit for the six months ended 30 June 2020	–	–	(440,745)	(440,745)
Net comprehensive loss for the period	–	–	(2,708,192)	(2,708,192)
<b>UNITHOLDERS' TRANSACTIONS</b>				
Creation of units – Manager's base fee paid/payable in units	62,189	–	–	62,189
Increase in net assets resulting from unitholders' transactions	62,189	–	–	62,189
<b>Net assets attributable to unitholders as at 30 June 2020 (Unaudited)</b>	<b>8,303,404</b>	<b>(286,279)</b>	<b>21,960,992</b>	<b>29,978,117</b>

	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 2019 (Audited)	8,113,501	(286,279)	24,186,143	32,013,365
<b>OPERATIONS</b>				
Profit for the period, before transactions with unitholders	–	–	1,021,755	1,021,755
Distribution paid and payable of 26.13 HK cents per unit for the six months ended 30 June 2019	–	–	(505,449)	(505,449)
Net comprehensive income for the period	–	–	516,306	516,306
<b>UNITHOLDERS' TRANSACTIONS</b>				
Creation of units				
– Manager's base fee paid/payable in units	63,026	–	–	63,026
Increase in net assets resulting from unitholders' transactions	63,026	–	–	63,026
<b>Net assets attributable to unitholders as at 30 June 2019 (Unaudited)</b>	<b>8,176,527</b>	<b>(286,279)</b>	<b>24,702,449</b>	<b>32,592,697</b>

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	450,031	702,191
Net cash used in investing activities:		
Upgrading of investment properties	(23,123)	(85,669)
Interest received	98	645
	(23,025)	(85,024)
Net cash used in financing activities:		
Drawdown of borrowings	979,000	1,060,000
Repayment of borrowings	(700,000)	(1,080,000)
Distribution paid	(488,191)	(481,420)
Finance costs paid	(127,659)	(118,589)
	(336,850)	(620,009)
Net increase/(decrease) in cash and cash equivalents	90,156	(2,842)
Cash and cash equivalents at beginning of the period	136,375	542,899
<b>Cash and cash equivalents at end of the period, represented by bank balances and cash</b>	<b>226,531</b>	<b>540,057</b>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 1 General

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

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

## 2 Basis of Preparation

The condensed consolidated financial statements are presented in Hong Kong dollars, which is 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" issued by International Accounting Standards Board ("**IASB**") as well as the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

The Manager is of the opinion that, taking into account the headroom of the fair value of investment properties, internal financial resources of the Group and presently available undrawn banking facilities together with the on-going negotiation with banks to obtain new banking facilities and to renew existing bank borrowing which will mature within one year from the end of the reporting period, the Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 3 Principal Accounting Policies

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

### Application of amendments to IFRSs

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

Amendments to IAS 1 and IAS 8

Definition of Material

The application of the Amendments to References to the Concept Framework in IFRS Standards and amendments to IFRSs in the current period has had no material impact on the Group’s financial position and performance for the current and prior period and/or on the disclosures set out in these condensed consolidated financial statements.

## 4 Revenue

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue arising from operating lease:		
Fixed	777,113	791,492
Variable	1,542	3,481
Charge-out collections	122,718	121,466
Car park revenue	49,935	57,188
Other income	514	647
	<b>951,822</b>	<b>974,274</b>

### Notes:

- (i) Operating lease payments mainly include base rental, licence fees and contingent rentals. Leases are negotiated for terms ranging from two to three years with monthly fixed rental except for contingent rentals that are variable based on the percentage of sales.
- (ii) Charge-out collections and car park revenue are revenue from contracts with customers, which consist of payments in respect of the operation of the properties in Hong Kong which are payable by the tenants, licensees and customers, are recognised over time as income when the services and facilities are provided. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice corresponding directly with the value to the customer of the Group's performance completed to date. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed. For comparative purposes, the comparative figure on revenue derived from car park space has been presented under car park revenue instead of revenue arising from operating lease, of which the car park revenue in prior year was recognised as lease income.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 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 2019: 16) properties as at 30 June 2020 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) 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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Advertising and promotion	10,131	6,733
Building management expenses	110,498	102,543
Car park operating expenses	15,378	15,682
Government rents and rates	5,048	6,724
Leasing commission and marketing services fee	8,614	16,631
Legal and other professional fees	4,370	3,351
Property manager fee	23,403	23,868
Utilities	19,240	19,257
Others	14,730	7,562
	<b>211,412</b>	<b>202,351</b>

## 7 Trust Expenses

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Trustee's fee	6,377	7,311
Other charges	2,064	3,961
	<b>8,441</b>	11,272

## 8 Finance Costs

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 9 (Loss)/Profit before Taxation and Transactions with Unitholders

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fees to external auditor		
– Audit services	804	804
– Non-audit services	660	660
Fees to internal auditor	175	175
Allowance for credit losses	6,163	–
Valuation fees (paid to principal valuer)	154	152

## 10 Income Tax Expense

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

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

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation using the applicable rate of 16.5%. The investment properties are not held under a business model whose objective is to consume substantially 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 (Loss)/Earnings per Unit

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 12 Investment Properties

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

Notes:

- (i) 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 2020 and 31 December 2019, independent valuations were undertaken by Jones Lang LaSalle Limited ("Jones Lang"). 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 fair value of investment properties falls under Level 3 of the fair value hierarchy. The valuation of the properties is 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, management fees and air-conditioning charges) 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 by reference to the yields derived from 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 2019: 4.0% – 4.8%). The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and it involves the exercise of 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.

- (ii) As at 30 June 2020, properties with total fair value of HK\$5,817 million (31 December 2019: HK\$6,225 million) have been mortgaged as collaterals for credit facilities granted by the banks.

## 13 Derivative Financial Instruments

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Derivative financial instruments are analysed as:		
Derivatives not under hedge accounting:		
Interest rate swaps	(158,615)	(6,066)
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Current assets	–	6,291
Non-current assets	–	1,327
Current liabilities	(15,185)	–
Non-current liabilities	(143,430)	(13,684)
	(158,615)	(6,066)

The Group uses interest rate swaps 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 13 Derivative Financial Instruments (Continued)

### Derivatives not under hedge accounting:

Contracts not under hedge accounting with total notional amount of HK\$6,486.2 million (31 December 2019: HK\$4,486.2 million) as at 30 June 2020 will mature from July 2020 to August 2027 (31 December 2019: July 2020 to March 2024). These contracts have fixed interest payments at rates ranging from 1.5075% to 2.245% (31 December 2019: 1.5075% to 2.245%) per annum and have floating interest receipts at one or three months Hong Kong Inter-bank Offered Rate ("**HIBOR**").

The change in fair value of the derivative financial instruments not under hedge accounting amounting to a loss of HK\$152.5 million (six months ended 30 June 2019: a loss of HK\$53.0 million), is recognised in the profit or loss for the six months ended 30 June 2020.

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 14 Trade and Other Receivables (Continued)

There is no credit period given on billing for rental of properties. The gross carrying amount of trade receivables include accrued rentals in respect of rent free periods amounted to HK\$27.1 million (31 December 2019: HK\$29.7 million). As at 30 June 2020, included in the Group's trade receivables balance are debtors with aggregate gross carrying amount of HK\$35.6 million (31 December 2019: HK\$13.2 million) which are past due as at the reporting date. Out of the past due balances, an aggregate gross carrying amount of HK\$6.2 million (31 December 2019: nil) has been past due 90 days or more and considered as default for which allowance for credit losses has been made.

The Group does not hold any collateral over these balances, other than the tenants' deposits held for the respective tenants. In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are recognised for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants. Allowance for credit losses has been recognised on any individual balance that is in excess of the relevant tenant's deposits.

## 15 Borrowings

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 15 Borrowings (Continued)

Notes:

- (i) As at 30 June 2020, total committed loan facilities amounted to HK\$8,900 million (31 December 2019: HK\$8,900 million), bear interest at HIBOR plus a margin ranging from 0.98% to 1.30% (31 December 2019: 0.98% to 1.30%).

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

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At beginning of the period/year	89,000	92,813
Reversal during the period/year	–	(3,813)
At end of the period/year	89,000	89,000
Movement in accumulated amortisation:		
At beginning of the period/year	(62,179)	(47,209)
Amortised during the period/year	(9,011)	(18,529)
Reversal during the period/year	–	3,559
At end of the period/year	(71,190)	(62,179)
Net book values	17,810	26,821

## 16 Trade and Other Payables

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

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\$254.9 million (31 December 2019: HK\$266.5 million) as at 30 June 2020.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 17 Units in Issue and to be Issued

	Number of units '000	HK\$'000
Balance as at 1 January 2019	1,927,905	8,113,501
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2019	9,637	95,335
Balance in issue as at 31 December 2019	1,937,542	8,208,836
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2019 (Note)	3,574	32,379
Balance as at 31 December 2019	1,941,116	8,241,215
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2020	4,747	32,027
Balance in issue as at 30 June 2020	1,945,863	8,273,242
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2020 (Note)	4,315	30,162
Balance as at 30 June 2020	1,950,178	8,303,404

Note: Manager's base fee payable to the Manager is in the form of units. On 10 July 2020, Fortune REIT issued 4,314,459 units at an issue price of HK\$6.9910 per unit to the Manager as base fee for the period from 1 April 2020 to 30 June 2020. On 3 January 2020, Fortune REIT issued 3,574,231 units at an issue price of HK\$9.0590 per unit to the Manager as base fee for the period from 1 October 2019 to 31 December 2019.



## 18 Net Asset Value per Unit Attributable to Unitholders

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

## 19 Net Current Liabilities

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

## 20 Total Assets Less Current Liabilities

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

## 21 Capital Commitments

As at 30 June 2020, the Group had capital commitments in respect of investment properties which were contracted but not provided for of HK\$86.8 million (31 December 2019: HK\$102.4 million).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 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	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Rent and rental related income from</b>			
ARA Asset Management (Fortune) Limited	(e)	2,562	2,629
A.S. Watson Retail (HK) Limited	(c)	16,243	18,132
BIGBOXX.com Limited	(c)	–	1,231
Cheung Kong Property Development Limited	(b)	13,629	9,088
Citybase Property Management Limited	(b)	1,146	1,144
Hang Seng Bank Limited	(d)	10,766	10,591
Hutchison International Limited	(c)	1,624	1,624
Hutchison Telephone Company Limited	(c)	4,690	4,665
Hutchison Telecommunication Services Limited	(c)	–	12
PARKnSHOP (HK) Limited	(c)	75,790	72,819
Sino China Enterprises Limited	(b)	–	10
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)	(d)	5,038	4,939
Towerich Limited	(b)	36	36
<b>Carpark lease agency fee for the operations of the Group’s carpark</b>			
E-Park Parking Management Limited	(b)	4,661	4,857

## 22 Connected and Related Party Transactions (Continued)

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Property management fee</b>			
Citybase Property Management Limited	(b)	538	565
Goodwell-Fortune Property Services Limited	(b)	23,403	23,868
Goodwell Property Management Limited	(b)	100	88
<b>Leasing commission and marketing services fee</b>			
Goodwell-Fortune Property Services Limited	(b)	8,573	16,062
<b>Trustee's fee</b>			
HSBC Institutional Trust Services (Asia) Limited	(g)	6,377	–
HSBC Institutional Trust Services (Singapore) Limited	(g)	–	7,311
<b>Manager's base fee</b>			
ARA Asset Management (Fortune) Limited	(e)	62,189	63,026
<b>Manager's performance fee</b>			
ARA Asset Management (Fortune) Limited	(e)	22,215	23,175
<b>Valuation and other fees</b>			
Jones Lang	(f)	154	152

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
<b>Trade receivables with connected and related companies are as follows:</b>			
A.S. Watson Retail (HK) Limited	(c)	–	70
PARKnSHOP (HK) Limited	(c)	22	20
Cheung Kong Property Development Limited	(b)	2,350	–
		<b>2,372</b>	90
<b>Other payables with connected and related companies are as follows:</b>			
ARA Asset Management (Fortune) Limited	(e)	7,769	7,639
HSBC Institutional Trust Services (Asia) Limited	(g)	1,028	1,091
Citybase Property Management Limited	(b)	23,047	34,110
E-Park Parking Management Limited	(b)	1,628	1,571
Goodwell-Fortune Property Services Limited	(b)	12,426	13,033
Goodwell Property Management Limited	(b)	12,765	25,480
		<b>49,866</b>	74,194
		<b>58,663</b>	82,924

## 22 Connected and Related Party Transactions (Continued)

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
<b>Deposits placed with the Group for the lease of the Group's properties</b>			
ARA Asset Management (Fortune) Limited	(e)	1,463	1,463
A.S. Watson Retail (HK) Limited	(c)	1,232	1,445
Citybase Property Management Limited	(b)	638	638
Hang Seng Bank Limited	(d)	5,722	5,722
HSBC	(d)	2,106	2,183
Hutchison Telephone Company Limited	(c)	1,412	1,614
PARKnSHOP (HK) Limited	(c)	2,297	2,297
Towerich Limited	(b)	20	20
		<b>14,890</b>	15,382

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 2020.
- (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) Jones Lang is the principal valuer of investment properties.
- (g) HSBC Institutional Trust Services (Singapore) Limited retired as trustee of Fortune REIT and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee of Fortune REIT on 24 October 2019.

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

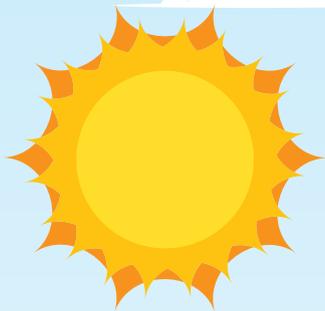
## Performance Table

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Net assets attributable to unitholders (HK\$'000)	29,978,117	32,624,120
Net asset value per unit (HK\$)	15.37	16.81
The highest traded price during the period/year (HK\$)	9.39	11.28
The highest premium of the trade price to net asset value <sup>1</sup>	N.A.	N.A.
The lowest traded price during the period/year (HK\$)	6.35	8.70
The highest discount of the trade price to net asset value	58.7%	48.2%
The net yield per unit <sup>2</sup>	6.5%	5.6%

### Notes:

1. 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.
2. The net yield per unit for the six months ended 30 June 2020 is an annualized yield based on the distribution per unit for the six months ended 30 June 2020 over the last trade price for the period.

The net yield per unit for the year ended 31 December 2019 is based on the distribution per unit for the year ended 31 December 2019 over the last trade 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 2020, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 3.0 million sq.ft. of retail space and 2,713 car parking lots.

於2020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	8,343	96.6%	653
2	+WOO	+WOO嘉湖	665,244	8,187	95.1%	622
3	Ma On Shan Plaza	馬鞍山廣場	310,084	5,817	88.7%	290
4	Metro Town	都會駅	180,822	3,698	97.2%	74
5	Fortune Metropolis	置富都會	332,168	2,642	92.5%	179
6	Belvedere Square	麗城薈	276,862	2,576	93.5%	329
7	Laguna Plaza	麗港城商場	163,203	2,522	98.7%	150
8	Waldorf Avenue	華都大道	80,842	1,787	99.3%	73
9	Caribbean Square	映灣薈	63,018	1,178	100%	117
10	Jubilee Square	銀禧薈	170,616	952	95.4%	97
11	Smartland	荃薈	123,544	817	96.0%	67
12	Tsing Yi Square	青怡薈	78,836	811	96.6%	27
13	Centre de Laguna	城中薈	43,000	338	98.5%	N.A. 不適用
14	Hampton Loft	凱帆薈	74,734	316	100%	35
15	Lido Avenue	麗都大道	9,836	209	100%	N.A. 不適用
16	Rhine Avenue	海韻大道	14,604	134	100%	N.A. 不適用
<b>Total/Overall Average 合計／總平均值</b>		<b>3,001,882</b>	<b>40,327</b>	<b>95.0%</b>	<b>2,713</b>	



新界  
New Territories

九龍  
Kowloon

大嶼山  
Lantau Island

香港島  
Hong Kong

Manager 管理人



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



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[www.fortunereit.com](http://www.fortunereit.com)

