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## Fortune Real Estate Investment Trust

*(a collective investment scheme authorized under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*  
**(Stock Code: 778)**

Managed by



ARA Asset Management (Fortune) Limited

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND RECORD DATE FOR DISTRIBUTION ENTITLEMENT

Fortune Real Estate Investment Trust ("**Fortune REIT**") is a real estate investment trust constituted by a trust deed ("**Trust Deed**") entered into on 4 July 2003 (as amended, supplemented or otherwise modified from time to time). Fortune REIT is listed on The Stock Exchange of Hong Kong Limited ("**SEHK**").

Fortune REIT holds a portfolio of 16 retail properties in Hong Kong, comprising approximately 3.0 million square feet ("**Sq.ft.**") of retail space and 2,713 car parking lots. The retail properties are Fortune City One, +WOO, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Belvedere Square, Laguna Plaza, Waldorf Avenue, Caribbean Square, Jubilee Square, Smartland, Tsing Yi Square, Centre de Laguna, Hampton Loft, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2021 (the “**Reporting Period**”) as follows:

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2021	Six months ended 30 June 2020	% change
Revenue (HK\$ million)	<b>904.4</b>	951.8	-5.0%
Net property income (HK\$ million)	<b>674.1</b>	718.2	-6.1%
Income available for distribution (HK\$ million)	<b>490.8</b>	489.7	+0.2%
Distribution to unitholders (HK\$ million)	<b>490.8</b>	440.7	+11.4%
Distribution per unit (“ <b>DPU</b> ”) (HK cents)	<b>24.96</b>	22.60	+10.4%
Cost-to-revenue ratio	<b>23.2%</b>	22.2%	+1.0%
	As at 30 June 2021	As at 31 December 2020	% change
Net asset value per unit (HK\$)	<b>14.45</b>	14.62	-1.2%
Property valuation (HK\$ million)	<b>38,840</b>	39,075	-0.6%
Gearing ratio <sup>[1]</sup>	<b>22.5%</b>	22.4%	+0.1%

Note:

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

## DISTRIBUTION

Fortune REIT’s distribution policy is to distribute no less than 90% of its audited annual net income after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments set out in the Trust Deed.

## FINANCIAL REVIEW

Fortune REIT recorded a revenue of HK\$904.4 million (first half of 2020: HK\$951.8 million) for the six months ended 30 June 2021, down by 5.0% year-on-year attributable to negative rental reversions and certain rental concession granted to tenants but partly offset by a higher car park income.

Total property operating expenses (excluding the Manager’s performance fee) decreased by 0.9% year-on-year to HK\$209.5 million (first half of 2020: HK\$211.4 million). As leasing activities picked up while we continued our effort in driving tenant sales via various marketing campaigns, higher leasing commissions and advertising and promotion expenses were recorded for the Reporting Period. However, an overall saving was resulted for property operating expenses thanks to our cost-efficient building management as well as a lower allowance in credit losses.

As a result, net property income decreased by 6.1% year-on-year to HK\$674.1 million (first half of 2020: HK\$718.2 million), while cost-to-revenue ratio was 23.2% (first half of 2020: 22.2%) for the Reporting Period.

Finance costs (excluding change in fair value of derivative financial instruments) decreased by 30.9% year-on-year to HK\$96.5 million (first half of 2020: HK\$139.7 million), attributable to lower HIBOR during the Reporting Period. Effective borrowing cost for the Reporting Year was 2.20% (first half of 2020: 3.20%).

Income available for distribution for the Reporting Period was HK\$490.8 million (first half of 2020: HK\$489.7 million), representing a year-on-year increase of 0.2%. With a 100% distribution payout ratio for the Reporting Period (first half of 2020: 90%), DPU increased by 10.4% year-on-year to 24.96 HK cents (first half of 2020: 22.60 HK cents), representing a yield of 6.0% based on the closing unit price of HK\$8.32 as at 30 June 2021.

The interim DPU of 24.96 HK cents for the six months ended 30 June 2021 will be paid on 17 September 2021 to Unitholders on the register of Unitholders of Fortune REIT as at 24 August 2021.

## CAPITAL MANAGEMENT

In June 2021, Fortune REIT secured new loans amounting to HK\$3,800 million (the “**New Facilities**”) for the purpose of refinancing and other general corporate use. The New Facilities are for a term of five years and consist of (i) a HK\$2,000 million term loan; (ii) a HK\$300 million revolving loan; and (iii) a HK\$1,500 million sustainability-linked revolving loan. The refinancing is going to extend the average maturity of the loan portfolio to 3.8 years and by entering into a second ESG-linked loan, Fortune REIT reaffirms commitment to its stakeholders that it will continue to integrate sustainability best practices into its daily operations.

As at 30 June 2021, Fortune REIT’s total committed loan facilities (excluding the New Facilities) amounted to HK\$9,200 million (31 December 2020: HK\$9,200 million). Gearing ratio slightly increased to 22.5% (31 December 2020: 22.4%), mainly due to lower property valuations. Gross liability as a percentage of its gross assets increased to 27.4% as at 30 June 2021 (31 December 2020: 27.2%).

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements. As at 30 June 2021, available liquidity stood at HK\$919.4 million (31 December 2020: HK\$877.2 million), comprising committed but undrawn facilities of HK\$700.0 million (31 December 2020: HK\$700.0 million) and bank deposits of HK\$219.4 million (31 December 2020: HK\$177.2 million).

As at 30 June 2021, interest cost for approximately 51% (31 December 2020: 50%) of Fortune REIT’s outstanding debts was hedged through interest rate swaps.

Net asset value per unit amounted to HK\$14.45 as at 30 June 2021, down 1.2% from HK\$14.62 at the end of 2020.

## PORTFOLIO VALUATION

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$38,840 million as at 30 June 2021, down by 0.6% from the valuation as at 31 December 2020. This drop was attributable to a lower rental projection adopted on the back of a soft retail environment. Jones Lang LaSalle Limited, the principal valuer, has adopted the valuation methodology of an 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\$257.9 million for the Reporting Period.

## PORTFOLIO HIGHLIGHTS

As at 30 June 2021, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 3.0 million Sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq.ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	8,087	97.5%	653
+WOO	665,244	7,720	92.1%	622
Ma On Shan Plaza	310,084	5,622	98.7%	290
Metro Town	180,822	3,585	99.7%	74
Fortune Metropolis	332,168	2,469	87.1%	179
Belvedere Square	276,862	2,514	95.9%	329
Laguna Plaza	163,203	2,455	100%	150
Waldorf Avenue	80,842	1,738	100%	73
Caribbean Square	63,018	1,150	100%	117
Jubilee Square	170,616	926	98.1%	97
Smartland	123,544	795	98.4%	67
Tsing Yi Square	78,836	790	100%	27
Centre de Laguna	43,000	330	100%	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>38,840</b>	<b>95.8%</b>	<b>2,713</b>

## BUSINESS REVIEW

During the first half of 2021, signs of stabilization were observed for the retail market in Hong Kong as social distancing restrictions were gradually relaxed. Supported by local consumption, the total retail sales value for the first half of 2021 increased by 8.4% year-on-year, partly helped by a lower base in 2020, albeit it was still some 20% off from the pre-pandemic level in 2019, as inbound tourism remained frozen due to travel restrictions globally.

Portfolio occupancy remained stable during the Reporting Period and stood at 95.8% as at 30 June 2021. With the AElS at +WOO Phase 2 commencing in June 2021, its occupancy was 92.1% as at 30 June 2021 and is expected to dip further as the project advances. Leasing progress stayed healthy with space of 480,000 Sq. ft., representing 16% of total portfolio area were committed for renewals or new lettings. New rents were still under pressure and negative reversions were recorded during the Reporting Period. We maintained our focus in retaining quality tenants and tenant retention recorded a healthy 74% for the portfolio, excluding +WOO. Rental collection rate remained high at over 99%.

The pace of recovery has been uneven across different business sectors. Non-discretionary sectors such as supermarkets, convenience stores and grocery stores as well as household and health products continued their steady performance while retail tenants continued to suffer from weak demand in general. Government-mandated measures such as restricted dining hours and reduced seating capacity were still in place throughout the Reporting Period affecting the food and beverage sector in Hong Kong. Nevertheless, with COVID-19 infections subsiding towards the end of the Reporting Period and social distancing restrictions gradually relaxed, traffic at Fortune Malls has been steadily picking up. Daily average footfall recorded a 11% year-on-year increase for the 3 months from March to May 2021 and reached a new 12-month peak in June 2021. Car park revenue recorded a year-on-year increase of 11.2% for the Reporting Period, attributable mainly to a surge in hourly car park income.

During the Reporting Period, we continued our commitment in driving tenants' sales and have rolled out various marketing campaigns such as gift redemptions, top spender competitions and shopping coupons reward to stimulate spending at Fortune Malls. The launch of Fortune Malls mobile APP and its Fortune+ loyalty programme since June 2020 have played a pivotal role in pushing out the promotion offers in an efficient manner.

### **Two AElS projects underway to position for growth**

Two asset enhancement initiatives (“AElS”) projects at +WOO and Fortune Metropolis are currently underway to better position Fortune Malls for the next phase of growth.

The AElS at +WOO Phase 2 has commenced in June 2021 as scheduled. With a budgeted capex of HK\$300 million, the project is to be bigger in scale compared to +WOO Phase 1 which has achieved a successful 10% return on investment when it was completed in 2019. The project will be divided into three stages with the first stage to be completed in the first half of 2022. Vacation of affected tenants will be carefully timed to minimise the impact of rental downtime throughout the project. The expanding residential catchment in Tin Shui Wai continues to support the business of +WOO and we are positive that this leading shopping mall in Tin Shui Wai is in a good position to capture the opportunities when the retail market recovers.

As one of the key attractions of Fortune Metropolis over the past decade, the 15,000 Sq. ft. food court has closed down in July 2021 for a full revamp. With an estimated capex of HK\$16 million, we are looking to bring in new food concepts, brighten up the seating area and digitalise the food ordering system to capture more business potential from the new MTR Tuen Ma Line as Hung Hom becomes a busier interchange station.

## OUTLOOK

The Hong Kong economy saw a visible recovery in the first half of 2021, where GDP grew by 8.0% and 7.5% year-on-year in the first and second quarter respectively, ending the year-on-year contraction trend over the six preceding quarters. The labour market also improved further with the unemployment rate easing to 5.5% for the three months ending June 2021 from its 17-year peak of 7.2% for the three months ending February 2021. With the continued roll-out of the vaccination programme in Hong Kong and government's HK\$5,000 Consumption Voucher Scheme, it is hopeful that local consumption and the leasing market will find further support. The still-evolving global pandemic situation, however, remains a key source of risk to the recovery.

Although the pandemic has brought disruption to Fortune REIT's business, we have responded to the challenges proactively. Our marketing budget has more than doubled from the pre-pandemic period with marketing efforts all geared towards helping our tenants' business. We closely communicated with our tenants as our most valuable business partners and continued to support them during difficult times. The two AEs at +WOO and Fortune Metropolis are currently underway and they are expected to stimulate further growth for Fortune REIT. We remain focused on safeguarding the long-term value for Unitholders through proactive asset management, effective cost control, robust balance sheet management and prudent acquisitions.

## EMPLOYEES

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

## NEW UNITS ISSUED

As at 30 June 2021, the total number of issued units of Fortune REIT was 1,962,764,632. As compared with the position as at 31 December 2020, a total of 7,947,607 new units were issued during the Reporting Period in the following manner:

- On 8 January 2021, 4,069,851 new units were issued to the Manager at the price of HK\$7.26 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.5 million payable by Fortune REIT for the period from 1 October 2020 to 31 December 2020.
- On 13 April 2021, 3,877,756 new units were issued to the Manager at the price of HK\$7.454 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$28.9 million payable by Fortune REIT for the period from 1 January 2021 to 31 March 2021.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 21,618,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

## CORPORATE GOVERNANCE

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

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

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

## RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the interim distribution, the record date will be on Tuesday, 24 August 2021. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 24 August 2021. The payment of interim distribution will be made to unitholders on Friday, 17 September 2021.

## REVIEW OF INTERIM RESULTS

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

## PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2021.

## ISSUANCE OF 2021 INTERIM REPORT

The 2021 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders and published on the websites of SEHK and Fortune REIT on or before 30 September 2021.

By order of the board of directors of  
**ARA Asset Management (Fortune) Limited**  
(in its capacity as manager of Fortune Real Estate Investment Trust)  
**Chiu Yu, Justina**  
*Chief Executive Officer*

Hong Kong, 6 August 2021

*The Directors of the Manager as at the date of this announcement are Mr. Chui Sing Loi (alias Tsui Sing Loi) as Chairman and Independent Non-executive Director; Dr. Chiu Kwok Hung, Justin, Mr. Lim Hwee Chiang, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Chiu Yu, Justina as Executive Director; Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah as Independent Non-executive Directors.*



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

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	5	904,398	951,822
Property operating expenses	6	<u>(209,463)</u>	<u>(211,412)</u>
<b>Net property income before manager's performance fee</b>		<b>694,935</b>	<b>740,410</b>
Manager's performance fee		<u>(20,849)</u>	<u>(22,215)</u>
<b>Net property income</b>		<b>674,086</b>	<b>718,195</b>
Manager's base fee		(57,955)	(62,189)
Foreign currency exchange gain, net		-	18
Interest income		31	98
Trust expenses		(7,834)	(8,441)
Change in fair value of investment properties	11	(257,938)	(2,516,123)
Finance costs	7	<u>(42,981)</u>	<u>(292,290)</u>
<b>Profit/(loss) before taxation and transactions with unitholders</b>	8	<b>307,409</b>	<b>(2,160,732)</b>
Income tax expense	9	<u>(102,923)</u>	<u>(106,715)</u>
<b>Profit/(loss) for the period, before transactions with unitholders</b>		<b>204,486</b>	<b>(2,267,447)</b>
Distributions to unitholders		<u>(490,847)</u>	<u>(440,745)</u>
<b>Net comprehensive expense for the period</b>		<b><u>(286,361)</u></b>	<b><u>(2,708,192)</u></b>
Basic earnings/(loss) per unit (HK cents)	10	<u>10.42</u>	<u>(116.49)</u>

## Distribution Statement

For the six months ended 30 June 2021

		<i>Six months ended 30 June</i>	
		<i>2021</i>	<i>2020</i>
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Profit/(loss) for the period, before transactions with unitholders</b>		<b>204,486</b>	<b>(2,267,447)</b>
<b>Adjustments:</b>			
Manager's base fee		57,955	62,189
Change in fair value of investment properties		257,938	2,516,123
Change in fair value of derivative financial instruments		(53,551)	152,549
Non-cash finance costs		8,923	12,082
Deferred tax		15,096	14,221
<b>Income available for distribution</b>	(i)	<b>490,847</b>	<b>489,717</b>
Percentage of distributable to unitholders		100%	90%
<b>Distribution to unitholders</b>	(ii)	<b>490,847</b>	<b>440,745</b>
<b>Distribution per unit (HK cents)</b>	(iii)	<b>24.96</b>	<b>22.60</b>

### Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, not less than 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the Trust Deed.
- (ii) The distribution to unitholders amount of HK\$490.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$440.7 million), represented a payout ratio of 100% (six months ended 30 June 2020: 90%) of Fortune REIT's income available for distribution of HK\$490.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$489.7 million).
- (iii) The distribution per unit of 24.96 HK cents for the six months ended 30 June 2021 was calculated based on the interim distribution to unitholders amount of HK\$490.8 million over 1,966,220,930 units, represented issued units as at 30 June 2021 of 1,962,764,632 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 2021 of 3,456,298 units. 2021 interim distribution will be paid on 17 September 2021.

The distribution per unit of 22.60 HK cents for the six months ended 30 June 2020 was calculated based on the interim distribution to unitholders amount of HK\$440.7 million over 1,950,177,768 units, 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. 2020 interim distribution was paid on 18 September 2020.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Investment properties	11	38,840,000	39,075,000
<b>Current assets</b>			
Trade and other receivables	12	80,774	84,094
Bank balances		219,358	177,167
<b>Total current assets</b>		300,132	261,261
<b>Total assets</b>		39,140,132	39,336,261
<b>Non-current liabilities</b>			
Derivative financial instruments		133,304	180,256
Borrowings	13	3,971,505	5,164,705
Deferred tax liabilities		545,866	530,770
<b>Total non-current liabilities</b>		4,650,675	5,875,731
<b>Current liabilities</b>			
Trade and other payables	14	728,971	717,317
Derivative financial instruments		-	6,599
Borrowings	13	4,797,067	3,594,667
Distribution payable		490,847	481,996
Provision for taxation		69,476	28,449
<b>Total current liabilities</b>		6,086,361	4,829,028
<b>Total liabilities, excluding net assets attributable to unitholders</b>		10,737,036	10,704,759
<b>Net assets attributable to unitholders</b>		<b>28,403,096</b>	<b>28,631,502</b>
<b>Units in issue and to be issued ('000)</b>	15	<b>1,966,221</b>	<b>1,958,887</b>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	16	<b>14.45</b>	<b>14.62</b>

## Notes

### (1) General

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and listed on The Stock Exchange of Hong Kong Limited (“**SEHK**”). Fortune REIT is governed by the 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 REIT Code issued by the SFC.

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

### (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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

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

In the current interim period, the Group has applied the following amendments to IFRSs issued by IASB, for the first time, which are pertinent to the Group and are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phrase 2*

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

#### (4) Segmental reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which is the management of the Manager, in order to allocate resources to segments and to assess their performance.

The Group owns 16 (31 December 2020: 16) properties as at 30 June 2021 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) are the measures reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

#### (5) Revenue

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue arising from operating lease:		
Fixed	724,934	777,113
Variable	2,029	1,542
Charge-out collections	121,345	122,718
Car park revenue	55,528	49,935
Other income	562	514
	<u>904,398</u>	<u>951,822</u>

#### (6) Property operating expenses

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Advertising and promotion	14,504	10,131
Building management expenses	105,453	110,498
Car park operating expenses	15,035	15,378
Government rents and rates	6,526	5,048
Leasing commission and marketing services fee	13,625	8,614
Legal and other professional fees	3,821	4,370
Property management fee	21,826	23,403
Utilities	18,921	19,240
Others	9,752	14,730
	<u>209,463</u>	<u>211,412</u>

**(7) Finance costs**

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on bank borrowings	54,632	127,704
Amortisation of front-end fees	9,200	9,011
Commitment fee	733	243
Interest rate swaps expenses realised	31,967	2,783
	<u>96,532</u>	<u>139,741</u>
Change in fair value of derivative financial instruments	(53,551)	152,549
	<u>42,981</u>	<u>292,290</u>

**(8) Profit/(loss) before taxation and transactions with unitholders**

Profit/(loss) before taxation and transactions with unitholders is arrived at after charging:

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,464	1,464
Fees to internal auditor	175	175
Allowance for credit losses	1,658	6,163
Valuation fees (paid to principal valuer)	154	154
	<u>154</u>	<u>154</u>

**(9) Income tax expense**

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current Tax	87,827	92,494
Deferred taxation	15,096	14,221
	<u>102,923</u>	<u>106,715</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2020: 16.5%).

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation using the applicable rate of 16.5%. The investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

**(10) Earnings/(loss) per unit**

Basic earnings per unit is calculated by dividing the profit for the six months ended 30 June 2021, before transactions with unitholders of HK\$204.5 million by the weighted average of 1,963,281,159 units outstanding during the period.

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.

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

**(11) Investment properties**

	<i>Fair Value HK\$'000 (Unaudited)</i>
As at 1 January 2021	39,075,000
During the period:	
Capital expenditure incurred in upgrading investment properties	22,938
Change in fair value of investment properties	<u>(257,938)</u>
As at 30 June 2021	<u>38,840,000</u>

**(12) Trade and other receivables**

	<i>30 June 2021 HK\$'000 (Unaudited)</i>	<i>31 December 2020 HK\$'000 (Audited)</i>
Trade receivables	57,713	58,612
Less: Allowance for credit losses	<u>(7,654)</u>	<u>(5,996)</u>
	<u>50,059</u>	<u>52,616</u>
Other receivables and prepayments		
Security deposits	25,674	25,666
Other receivables	2,578	1,986
Prepayments	<u>2,463</u>	<u>3,826</u>
	<u>30,715</u>	<u>31,478</u>
	<u>80,774</u>	<u>84,094</u>

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

	<i>30 June 2021 HK\$'000 (Unaudited)</i>	<i>31 December 2020 HK\$'000 (Audited)</i>
0 - 30 days	44,267	44,386
31 - 90 days	<u>5,792</u>	<u>8,230</u>
	<u>50,059</u>	<u>52,616</u>

**(13) Borrowings**

	<i>30 June 2021 HK\$'000 (Unaudited)</i>	<i>31 December 2020 HK\$'000 (Audited)</i>
Unsecured term loans	8,500,000	8,500,000
Unsecured revolving loans	300,000	300,000
	<u>8,800,000</u>	<u>8,800,000</u>
Less: unamortised front end fees	(31,428)	(40,628)
	<u>8,768,572</u>	<u>8,759,372</u>
Carrying amount repayable:		
Within one year	4,797,067	3,594,667
More than one year, but not more than two years	-	1,197,200
More than two years, but not more than five years	3,971,505	3,967,505
	<u>8,768,572</u>	<u>8,759,372</u>
Less: Amount due within one year shown under current liabilities	(4,797,067)	(3,594,667)
	<u>3,971,505</u>	<u>5,164,705</u>

**(14) Trade and other payables**

	<i>30 June 2021 HK\$'000 (Unaudited)</i>	<i>31 December 2020 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits	476,993	477,712
Rental received in advance	40,933	50,602
	<u>517,926</u>	<u>528,314</u>
Other payables		
Trustee's fee	958	996
Manager's performance fees	6,718	6,108
Other expenses	188,186	167,504
Interest payable	9,105	9,382
Others	6,078	5,013
	<u>211,045</u>	<u>189,003</u>
	<u>728,971</u>	<u>717,317</u>

Trade and other payables comprise deposits refundable to tenants upon termination or cancellation of operating lease arrangements. The tenants' deposits are refundable to tenants within 30 days upon the termination of the tenancy agreement.

The tenants' deposits to be settled after twelve months from the end of the reporting period based on lease term amounted to HK\$259.1 million (31 December 2020: HK\$263.4 million) as at 30 June 2021.



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

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2020	1,941,116	8,241,215
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2020	13,701	92,683
Balance in issue as at 31 December 2020	<hr/> 1,954,817	<hr/> 8,333,898
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2020	4,070	29,547
Balance as at 31 December 2020	<hr/> 1,958,887	<hr/> 8,363,445
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2021	3,878	28,905
Balance in issue as at 30 June 2021	<hr/> 1,962,765	<hr/> 8,392,350
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2021	3,456	29,050
Balance as at 30 June 2021	<hr/> <hr/> 1,966,221	<hr/> <hr/> 8,421,400

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

Net asset value per unit as at 30 June 2021 is calculated based on the net assets attributable to unitholders of the Group of HK\$28,403.1 million (31 December 2020: HK\$28,631.5 million) and the total number of 1,966,220,930 units (31 December 2020: 1,958,886,876 units) in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 30 June 2021, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$5,786.2 million (31 December 2020: HK\$4,567.8 million).

As at 30 June 2021, the Group's total assets less current liabilities amounted to HK\$33,053.8 million (31 December 2020: HK\$34,507.2 million).