

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Fortune Real Estate Investment Trust

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

(Stock Code: 778)

**Managed by
ARA Asset Management (Fortune) Limited**

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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, Belvedere Square, Laguna Plaza, Fortune Metropolis, Waldorf Avenue, Caribbean Square, Jubilee Square, Tsing Yi Square, Smartland, Centre de Laguna, Hampton Loft, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2021 (the “**Reporting Year**” or “**FY2021**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2021	Year ended 31 December 2020	% change
Revenue (HK\$ million)	1,806.4	1,843.8	-2.0%
Net property income (HK\$ million)	1,340.2	1,376.1	-2.6%
Income available for distribution (HK\$ million)	981.1	970.4	+1.1%
Distribution to unitholders (HK\$ million)	883.0	921.9	-4.2%
Distribution per unit (“ DPU ”) (HK cents)	44.83	47.16	-4.9%
Cost-to-revenue ratio	23.5%	23.1%	+0.4%
	As at 31 December 2021	As at 31 December 2020	% change
Property valuation (HK\$ million)	39,500	39,075	+1.1%
Net asset value per unit (HK\$)	14.79	14.62	+1.2%
Gearing ratio ^[1]	22.4%	22.4%	-

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

In 2021, COVID-19 continued to cast a shadow over Hong Kong’s economic recovery with travel restrictions and social distancing measures in effect during the year. The retail market was improving throughout much of the year until the recent outbreak of the Omicron variant. Against such a backdrop, Fortune REIT reported a revenue of HK\$1,806.4 million (2020: HK\$1,843.8 million) for the Reporting Year, representing a decrease of 2.0% year-on-year. The decrease was mainly attributable to negative rental reversion and lower portfolio occupancy mainly due to two asset enhancement initiatives (“**AEIs**”) underway. Thanks to an improved operating environment, the increased carpark income and the absence of rental concession in the second half of the Reporting Year were able to reduce the full year loss in rental income by half.

Total property operating expenses (excluding the Manager’s performance fee) were well contained at HK\$424.8 million (2020: HK\$425.1 million). A slight decrease was recorded for property operating expenses as the increase in utility expenses, leasing commissions and advertising and promotion expenses were more than offset by savings from lower credit losses allowance and legal fees. The higher leasing activities, longer business hours allowed for our tenants and improved bad debt position have all pointed to a better operating environment, while we continued to step up our marketing effort in attracting spending power brought by the Hong Kong government’s electronic Consumption Voucher Scheme (“**CVS**”) in the second half of 2021.

Accordingly, net property income decreased by 2.6% year-on-year to HK\$1,340.2 million (2020: HK\$1,376.1 million). Cost-to-revenue ratio was 23.5% (2020: 23.1%) for the Reporting Year.

Finance costs (excluding change in fair value of derivative financial instruments) recorded a drop of 21.4% year-on-year to HK\$193.1 million (2020: HK\$245.8 million) as the Hong Kong Interbank Offered Rate (“**HIBOR**”) fell to historically low levels during the Reporting Year. As a result, effective borrowing cost reduced to 2.18% (2020: 2.80%).

Income available for distribution for the Reporting Year increased by 1.1% year-on-year to HK\$981.1 million (2020: HK\$970.4 million). In anticipation of the challenges ahead and as a prudent measure, the Board has decided on a 90% distribution payout ratio for the Reporting Year to conserve cash. Accordingly, the full year DPU was down by 4.9% year-on-year to 44.83 HK cents (2020: 47.16 HK cents), representing a yield of 5.6% based on the closing unit price of HK\$8.01 as at 31 December 2021.

The final DPU of 19.87 HK cents for the year ended 31 December 2021 will be paid on 22 April 2022 to Unitholders on the register of Unitholders of Fortune REIT as at 17 March 2022.

Capital Management

As at 31 December 2021, Fortune REIT’s total loan facilities drawn down amounted to HK\$8,900 million (2020: HK\$8,800 million). In spite of a higher debt level, gearing ratio remained the same at 22.4% (2020: 22.4%) as a result of higher property valuations. Gross liability as a percentage of its gross assets decreased to 26.5% as at 31 December 2021 (2020: 27.2%).

In June 2021, Fortune REIT secured new loan facilities amounting to HK\$3,800 million (the “**2021 Facilities**”). The 2021 Facilities 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.

Subsequent to the end of Reporting Year, a further HK\$1,200 million sustainability-linked loan facility (the “**2022 Facilities**”) was obtained in January 2022. Both the 2021 Facilities and 2022 Facilities were for a term of 5 years and for the purpose of refinancing and other general corporate use. Fortune REIT’s financial position was strengthened with the average debt maturity extended to 3.9 years.

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements. As at 31 December 2021, available liquidity was HK\$418.0 million (2020: HK\$877.2 million), comprising committed but undrawn facilities of HK\$300.0 million (2020: HK\$700.0 million) and bank deposits of HK\$118.0 million (2020: HK\$177.2 million). It also had uncommitted revolving loan facilities of HK\$300.0 million which remained undrawn at the end of the Reporting Year.

In anticipation of upcoming rate hikes, additional interest rate swaps were entered during the Reporting Year to maintain an appropriate level of protection against interest rate fluctuations. As at 31 December 2021, interest cost for approximately 70% (2020: 50%) of Fortune REIT’s outstanding committed loan facilities was hedged through interest rate swaps. Net asset value per unit amounted to HK\$14.79 as at 31 December 2021, increasing 1.2% from HK\$14.62 at the end of 2020.

Portfolio Valuation

Fortune REIT's portfolio valuation increased by 1.1% year-on-year to HK\$39,500 million as at 31 December 2021 (2020: HK\$39,075 million). Jones Lang LaSalle Limited, the principal valuer, has adopted the valuation methodology of an income capitalisation approach and cross-referenced with a direct comparison approach. The average capitalisation rate stood at 4.3%. Improvement in the performance of the underlying asset has resulted in a revaluation gain of HK\$358.0 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 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	8,178	98.5%	653
+WOO	665,244	7,868	86.7%	622
Ma On Shan Plaza	310,084	5,741	99.7%	290
Metro Town	180,822	3,673	95.3%	74
Belvedere Square	276,862	2,526	97.9%	329
Laguna Plaza	163,203	2,512	99.8%	150
Fortune Metropolis	332,168	2,469	83.2%	179
Waldorf Avenue	80,842	1,777	100%	73
Caribbean Square	63,018	1,196	100%	117
Jubilee Square	170,616	926	98.3%	97
Tsing Yi Square	78,836	827	99.1%	27
Smartland	123,544	814	99.3%	67
Centre de Laguna	43,000	330	99.5%	N.A
Hampton Loft	74,734	318	100%	35
Lido Avenue	9,836	211	100%	N.A
Rhine Avenue	14,604	134	100%	N.A
Total / Overall average	3,001,882	39,500	94.3%	2,713

BUSINESS REVIEW

During the Reporting Year, the pandemic situation in Hong Kong was well-contained with local infections maintained at zero for much of the second half of 2021. Although the border remained closed for the whole year, Hong Kong's unemployment was largely eased along with the gradual revival of local economic activities while retail sentiment was also boosted by the government's CVS. Retail sales value in Hong Kong posted a year-on-year growth of 8.1% for the whole 2021, mostly supported by robust local consumption. It was however, still 27.2% below the level in 2018 before the recession as in-bound tourism stayed at a standstill.

Amidst the soft market environment, the Manager adopted a proactive stance and capitalised on the window to embark on AElS for long term business growth. Portfolio occupancy remained healthy at 94.3% as at 31 December 2021, as the AElS at +WOO and Fortune Metropolis have been thoroughly planned with downtime carefully scheduled while high occupancies were maintained across the rest of Fortune Malls. Leasing has been gaining momentum throughout the Reporting Year as more than one million Sq.ft., representing 34.5% of the total portfolio area, were committed for renewal and new lettings. Negative reversions were still inevitable in 2021 as the leases renewed were mostly off a higher rent level set two-to-three years ago.

With a strong focus on necessity trade mix, Fortune Malls enjoyed resilient demand for non-discretionary goods amid robust local consumption. Despite the two AElS currently underway, tenant retention recorded a healthy rate of 74% for the Reporting Year. In addition to retaining quality tenants, we have been also proactively tapping emerging demands in the market and successfully onboarded tenants from new sectors such as gyms, fencing schools, shops selling masks and health products etc.

The Manager has taken a more sales-driven marketing approach in supporting tenants as market sentiment continued to improve throughout 2021. Leveraging on the Fortune Malls APP and our social media platforms, we have launched various marketing campaigns, including gift redemption schemes, top spender competitions and coupon rewards to drive tenant sales. Targeting the CVS's disbursement beginning in August 2021, our "Happy Shopping" Rewards Program was tailored to reward loyal customers and encourage spending using their CVS e-wallet. The CVS, coupled with our successful online-to-offline marketing campaigns, has lifted the footfall traffic and tenant sales at Fortune Malls. During the Reporting Year, daily average footfall and hourly carpark income have increased by 6.1% and 23.4% respectively against 2020, with further momentum in the second half of 2021 generating year-on-year growth of 11.3% and 29.3% respectively. Accordingly, the rental concession needed was reduced by more than 70% for 2021.

Two AElS to Tap Potential Economic Recovery

In pursuing its core strategy of unlocking latent value of our assets and to pave the way for growth when the retail market recovers, Fortune REIT has commenced AElS at two flagship malls, with a capital expenditure of HK\$300 million and HK\$16 million for +WOO and Fortune Metropolis, respectively.

As the leading shopping mall in Tin Shui Wai, +WOO has commenced its AElS at Phase 2 to uplift its positioning. The project is to be undertaken by phases and affected areas will re-open in stages beginning from mid-2022. The mall will be revitalised through an enhanced layout and inclusive facilities while infusing interactive digital touches and recreational elements, making it a desirable destination for shoppers of all ages. Meanwhile, the Manager will optimize the tenant mix and strengthen the in-demand food and beverage sector to cater for the needs for the growing population in Tin Shui Wai.

The AElS for the food court at Fortune Metropolis is approaching completion upon fitting-out of individual food stalls. As a popular dining destination in neighborhood of the Hung Hom MTR Station, the 15,000 Sq.ft. food court has been redesigned with a modern look and is set to bring a new dining experience with expanded food offerings and digitalised food ordering flow. In addition to impressing regular customers, the upgrade is also poised to tap the potential demand from the expanding transportation build-outs including the MTR Tuen Ma Line and the upcoming Shatin-to-Central Link.

Fortune Malls APP and Loyalty Program to Increase Customer Stickiness

Digitalisation positions our businesses for sustainable long-term growth well beyond the recovery from the pandemic. The Fortune Malls mobile APP offers a one-stop solution that captures and provides wide-range mall information and promotional offers. Featuring the Fortune+ loyalty programme, the APP enabled us to successfully attract, engage, and retain customers in a seamless cycle. The six largest malls, as an initial batch included in the Fortune+ loyalty programme, have seen growth in new membership, participation and rewards redemption rate since the launch of the APP in June 2020. Riding on the good response, the Fortune+ loyalty programme has recently been expanded by adding six malls to a total of 12 malls. As Fortune REIT commits to future-proofing its operations, the Fortune Malls APP will continue to play a pivotal part in promoting Fortune Malls' business and adding to its long-term competitiveness.

Contribute to Building a Sustainable Community

Fortune REIT has been making steadfast strides on steering the business in an environmentally friendly way, from internal policies and governance, fitting-out plan with tenants, project planning for asset enhancement and daily facility management. In 2021, Fortune REIT became the first and only Hong Kong REIT to have garnered the highest five-star rating in Global Real Estate Sustainability Benchmark (GRESB). Moreover, notable progress has been made on green financing and green building certifications during the Reporting Year.

During the short journey of green financing beginning since our first sustainability-linked loan in October 2020, Fortune REIT has already achieved multiple milestones. The 2022 Facilities, our third green loan, takes Fortune REIT's total green financing to an aggregate of HK\$3.7 billion, accounting for approximately 42% of the debt portfolio. Furthermore, Fortune REIT has also entered its first sustainability-linked interest rate swap which gave rise to the set up of an urban farm on the roof top of Fortune City One, Farm@Fortune. The green loans provided a financial incentive for meeting pre-determined targets on environmental aspects such as electricity consumption, greenhouse gas emissions and waste. The green swap, on the other hand, has set performance targets on social aspects which led to the launch of our Farm@Fortune green community project as we target to promote sustainable living practices and generate long-term value for the community.

On the operational front, Fortune REIT has taken a major step towards green building certifications during the Reporting Year. All Fortune Malls are now certified with BEAM Plus on Management Aspect while two of our flagship malls, Ma On Shan Plaza and Fortune Metropolis have attained Excellent rating for Energy Use and Water Use respectively. As part of our on-going decarbonisation and climate change efforts, a smart building management system will be installed at Fortune Malls. The cloud-based automated building solution will first cover up to 69% of our portfolio area, allowing centralised collection and monitoring of building data, serving to optimise energy efficiency and regulate air quality.

OUTLOOK

The Hong Kong economy registered a year-on-year growth of 6.4% for 2021 as a whole. The recovery was supported by the improving labour market alongside government's multiple relief programmes including the CVS. However, the outbreak of the Omicron variant in the beginning of 2022 and the consequential tightened social distancing measures are expected to pose another setback to the recovery and assert renewed pressure on retail market sentiment. The temporary Rental Enforcement Moratorium announced under HKSAR's 2022-23 Budget may adversely affect landlords' ability to collect rent and hence bring uncertainty to operating cashflows in the near term.

Fortune REIT remained collected amid market downturn while continuing to invest in long term business growth. The two AEs at +WOO and Fortune Metropolis would strengthen Fortune Malls' market positioning and lay a solid foundation for future growth. Going forward, the Manager will remain focused on safeguarding the long-term value for Unitholders through proactive asset management, effective cost control, robust balance sheet management and prudent acquisitions.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2021, the total number of issued units of Fortune REIT was 1,970,043,580. As compared with the position as at 31 December 2020, a total of 15,226,555 new units were issued during the Reporting Year in the following manner:

- On 8 January 2021, 4,069,851 new units were issued to the Manager at a price of HK\$7.260 per unit (being ascribed in the Trust Deed) as payment in full for 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 a price of HK\$7.454 per unit (being ascribed in the Trust Deed) as payment in full for 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.
- On 6 July 2021, 3,456,298 new units were issued to the Manager at a price of HK\$8.405 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$29.1 million payable by Fortune REIT for the period from 1 April 2021 to 30 June 2021.
- On 4 October 2021, 3,822,650 new units were issued to the Manager at a price of HK\$7.683 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$29.4 million payable by Fortune REIT for the period from 1 July 2021 to 30 September 2021.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 31,808,930 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

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

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

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the final distribution, the record date will be on Thursday, 17 March 2022. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 17 March 2022. The payment of final distribution will be made to unitholders on Friday, 22 April 2022.

REVIEW OF FINAL RESULTS

The final results of Fortune REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 31 December 2021.

ISSUANCE OF ANNUAL REPORT 2021

The 2021 Annual Report of Fortune REIT for the Reporting Year will be dispatched to unitholders and published on the websites of SEHK and Fortune REIT on or before 30 April 2022.

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, 1 March 2022

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Revenue	5	1,806,397	1,843,824
Property operating expenses	6	<u>(424,770)</u>	<u>(425,123)</u>
Net property income before manager's performance fee		1,381,627	1,418,701
Manager's performance fee		<u>(41,450)</u>	<u>(42,566)</u>
Net property income		1,340,177	1,376,135
Manager's base fee		(117,193)	(122,230)
Foreign currency exchange loss, net		-	(78)
Interest income		55	159
Trust expenses	7	(14,100)	(14,477)
Change in fair value of investment properties	12	357,971	(3,799,917)
Finance costs	8	<u>(45,766)</u>	<u>(426,612)</u>
Profit/(loss) before taxation and transactions with unitholders	9	1,521,144	(2,987,020)
Income tax expense	10	<u>(203,630)</u>	<u>(205,938)</u>
Profit/(loss) for the year, before transactions with unitholders		1,317,514	(3,192,958)
Distributions to unitholders		<u>(883,031)</u>	<u>(921,890)</u>
Net comprehensive income/(expense) for the year		<u>434,483</u>	<u>(4,114,848)</u>
Basic earnings/(loss) per unit (HK cents)	11	<u>66.98</u>	<u>(163.66)</u>

Distribution Statement

For the year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Profit/(loss) for the year, before transactions with unitholders		1,317,514	(3,192,958)
Adjustments:			
Manager's base fee		117,193	122,230
Change in fair value of investment properties		(357,971)	3,799,917
Change in fair value of derivative financial instruments		(147,366)	180,789
Non-cash finance costs		20,084	30,434
Deferred tax		31,691	29,999
Income available for distribution	(i)	981,145	970,411
Distributions to unitholders			
Interim distribution		490,847	440,745
Final distribution		392,184	481,145
		883,031	921,890
Payout ratio	(ii)	90%	95%
Distribution per unit (HK cents)			
Interim distribution per unit	(iii)	24.96	22.60
Final distribution per unit	(iv)	19.87	24.56
		44.83	47.16

Notes:

- (i) 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").
- (ii) Distribution amount to unitholders of HK\$883.0 million for the year ended 31 December 2021 (2020: HK\$921.9 million), representing a payout ratio of 90% (2020: 95%) of Fortune REIT's income available for distribution of HK\$981.1 million for the year ended 31 December 2021 (2020: HK\$970.4 million).
- (iii) The distribution per unit of 24.96 HK cents for the six months ended 30 June 2021 (six months ended 30 June 2020: 22.60 HK cents) was calculated based on the interim distribution to unitholders amount of HK\$490.8 million (six months ended 30 June 2020: HK\$440.7 million) over 1,966,220,930 units (30 June 2020: 1,950,177,768 units), represented issued units as at 30 June 2021 of 1,962,764,632 units (30 June 2020: 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 2021 of 3,456,298 units (second quarter of 2020: 4,314,459 units). Interim distribution was paid on 17 September 2021 (2020 interim distribution: 18 September 2020).

- (iv) The distribution per unit of 19.87 HK cents for the six months ended 31 December 2021 (six months ended 31 December 2020: 24.56 HK cents) is calculated based on the final distribution to unitholders amount of HK\$392.2 million (six months ended 31 December 2020: HK\$481.1 million) over 1,973,804,407 units (31 December 2020: 1,958,886,876 units), representing issued units as at 31 December 2021 of 1,970,043,580 units (31 December 2020: 1,954,817,025 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the fourth quarter of 2021 of 3,760,827 units (fourth quarter of 2020: 4,069,851 units). Final distribution will be paid on 22 April 2022 (2020 final distribution: 18 March 2021).

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	39,500,000	39,075,000
Derivative financial instruments		21,012	-
Total non-current assets		39,521,012	39,075,000
Current assets			
Trade and other receivables	13	76,782	84,094
Taxation recoverable		8,955	-
Bank balances		117,962	177,167
Total current assets		203,699	261,261
Total assets		39,724,711	39,336,261
Non-current liabilities			
Derivative financial instruments		60,501	180,256
Borrowings	14	7,240,917	5,164,705
Deferred tax liabilities		562,461	530,770
Total non-current liabilities		7,863,879	5,875,731
Current liabilities			
Trade and other payables	15	685,870	717,317
Borrowings	14	1,599,600	3,594,667
Distribution payable		392,184	481,996
Derivative financial instruments		-	6,599
Provision for taxation		-	28,449
Total current liabilities		2,677,654	4,829,028
Total liabilities, excluding net assets attributable to unitholders		10,541,533	10,704,759
Net assets attributable to unitholders		29,183,178	28,631,502
Units in issue and to be issued ('000)	16	1,973,804	1,958,887
Net asset value per unit attributable to unitholders (HK\$)	17	14.79	14.62

Notes

(1) General

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a Hong Kong collective investments 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 consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Fortune REIT.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”), and are drawn up in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK, the relevant provisions of the Trust Deed and the REIT Code issued by SFC.

The consolidated financial statements have been prepared on historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values at the end of each reporting period.

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

(3) Principal Accounting Policies

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the consolidated financial statements for the year ended 31 December 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 year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”) for the first time, which are pertinent to the Group and are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4
and IFRS 16

Interest Rate Benchmark Reform – Phase 2

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior year and/or on the disclosures set out in the consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued and are pertinent to its operations but are not yet effective:

Amendments to IFRS 3	Reference to the Conceptual Framework ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to IAS 8	Definition of Accounting Estimates ²
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²

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

² Effective for annual periods beginning on or after 1 January 2023.

The Manager anticipates that the application of the above amendments to IFRSs that are not yet effective will have no material impact on the Group's consolidated financial statements in the foreseeable future.

(4) Segmental reporting

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

The Group owns 16 (2020: 16) properties as at 31 December 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>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Revenue arising from operating leases:		
Fixed	1,443,102	1,491,590
Variable	6,461	3,205
Charge-out collections	239,269	244,162
Car park revenue	115,765	102,088
Other income	1,800	2,779
	1,806,397	1,843,824
	1,806,397	1,843,824

(6) Property operating expenses

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Advertising and promotion	22,488	21,335
Building management expenses	213,305	212,607
Car park operating expenses	32,413	30,405
Government rents and rates	13,406	12,644
Leasing commission and marketing services fee	28,436	26,977
Legal and other professional fees	6,723	10,557
Property management fee	43,540	44,927
Utilities	46,652	43,498
Others	17,807	22,173
	<u>424,770</u>	<u>425,123</u>

(7) Trust Expenses

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Trustee's fee	11,698	12,411
Other charges	2,402	2,066
	<u>14,100</u>	<u>14,477</u>

(8) Finance costs

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Interest expenses on bank borrowings	107,214	192,415
Amortisation of front-end fees	19,145	20,193
Commitment fee	1,770	1,126
Interest rate swaps expenses realised	65,003	32,089
	<u>193,132</u>	<u>245,823</u>
Change in fair value of derivative financial instruments	<u>(147,366)</u>	<u>180,789</u>
	<u>45,766</u>	<u>426,612</u>

(9) Profit/(loss) before taxation and transactions with unitholders

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

	2021 HK\$'000	2020 HK\$'000
Fees to external auditor		
- Audit services	1,580	1,580
- Non-audit services	1,262	1,379
Fees to internal auditor	350	350
Allowance for credit losses	631	5,996
Valuation fees (paid to principal valuer)	520	520
	<u>520</u>	<u>520</u>

(10) Income tax expense

	2021 HK\$'000	2020 HK\$'000
Current tax:		
- Hong Kong	171,918	175,939
- Under provision in prior years	21	-
	<u>171,939</u>	<u>175,939</u>
Deferred taxation:		
- Current year	31,951	29,999
- Over provision in prior years	(260)	-
	<u>31,691</u>	<u>29,999</u>
	<u>203,630</u>	<u>205,938</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2020: 16.5%) for the year ended 31 December 2021.

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

(11) Earnings/(loss) per unit

Basic earnings/(loss) per unit is calculated by dividing the earnings for the year, before transactions with unitholders of HK\$1,317.5 million (2020: loss of HK\$3,193.0 million) by the weighted average of 1,967,000,899 (2020: 1,950,979,986) units outstanding during the year.

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

(12) Investment properties

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Fair Value		
At beginning of year	39,075,000	42,820,000
During the year:		
Capital expenditure incurred in upgrading investment properties	67,029	54,917
Change in fair value of investment properties	357,971	(3,799,917)
At end of year	<u>39,500,000</u>	<u>39,075,000</u>

(13) Trade and other receivables

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Trade receivables	52,380	58,612
Less: allowance for credit losses	(6,627)	(5,996)
	<u>45,753</u>	<u>52,616</u>
Other receivables and prepayments		
Security deposits	25,672	25,666
Other receivables	1,076	1,986
Prepayments	4,281	3,826
	<u>31,029</u>	<u>31,478</u>
	<u>76,782</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>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
0 - 30 days	45,030	44,386
31 - 90 days	723	8,230
	<u>45,753</u>	<u>52,616</u>

(14) Borrowings

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Unsecured term loans	7,200,000	8,500,000
Unsecured revolving loans	1,700,000	300,000
	<u>8,900,000</u>	<u>8,800,000</u>
Less: unamortised front-end fees	(59,483)	(40,628)
	<u>8,840,517</u>	<u>8,759,372</u>

Carrying amount repayable:		
Within one year	1,599,600	3,594,667
More than one year, but not more than two years	1,494,564	1,197,200
More than two years, but not more than five years	5,746,353	3,967,505
	<u>8,840,517</u>	<u>8,759,372</u>
Less: Amount due within one year shown under current liabilities	<u>(1,599,600)</u>	<u>(3,594,667)</u>
	<u><u>7,240,917</u></u>	<u><u>5,164,705</u></u>

(15) Trade and other payables

	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
Tenants' deposits	458,400	477,712
Rental received in advance	36,025	50,602
	<u>494,425</u>	<u>528,314</u>
Other payables		
Trustee's fee	1,006	996
Manager's performance fee	3,465	6,108
Operating expenses	170,359	167,504
Interest payable	10,321	9,382
Others	6,294	5,013
	<u>191,445</u>	<u>189,003</u>
	<u><u>685,870</u></u>	<u><u>717,317</u></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\$275.2 million (2020: HK\$263.4 million) as at 31 December 2021.

(16) Units in issue and to be issued

	<i>Number of units</i>	<i>HK\$'000</i>
	<i>'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	<u>1,954,817</u>	<u>8,333,898</u>
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	<u>1,958,887</u>	<u>8,363,445</u>

Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2021	11,156	87,324
Balance in issue as at 31 December 2021	1,970,043	8,450,769
 New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2021	3,761	29,869
Balance as at 31 December 2021	1,973,804	8,480,638

(17) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$29,183.2 million (2020: HK\$28,631.5 million) and the total number of 1,973,804,407 (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.

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

As at 31 December 2021, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$2,474.0 million (2020: HK\$4,567.8 million).

As at 31 December 2021, the Group's total assets less current liabilities amounted to HK\$37,047.1 million (2020: HK\$34,507.2 million).