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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 2022 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 2022 (the “**Reporting Period**”) as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2022	Six months ended 30 June 2021	% change
Revenue (HK\$ million)	867.5	904.4	-4.1%
Net property income (HK\$ million)	634.0	674.1	-5.9%
Income available for distribution (HK\$ million)	456.9	490.8	-6.9%
Distribution to unitholders (HK\$ million)	456.9	490.8	-6.9%
Distribution per unit (“ DPU ”) (HK cents)	23.05	24.96	-7.7%
Cost-to-revenue ratio	24.7%	23.2%	+1.5%
	As at 30 June 2022	As at 31 December 2021	% change
Net asset value per unit (HK\$)	14.72	14.79	-0.5%
Property valuation (HK\$ million)	39,201	39,500	-0.8%
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

The fifth wave of the COVID-19 pandemic in Hong Kong at the beginning of 2022 has put the recovery of the local economy on pause, posing renewed threats to the retail market. With more stringent social distancing measures in place, a larger portion of our tenants were mandated to suspend operation or subject to more restricted operating capacity.

Amid such a difficult market condition, Fortune REIT reported a revenue of HK\$867.5 million, representing a decrease of 4.1% year-on-year (first half of 2021: HK\$904.4 million) for the six months ended 30 June 2022. The decrease was largely attributable to rental concessions as we have provided swift support to the tenants in need. On the other hand, negative rental reversion, along with lower portfolio occupancy as a result of the ongoing asset enhancement initiatives (“**AEIs**”), continued to drag on rental income.

Total property operating expenses (excluding the Manager’s performance fee) were HK\$213.9 million, versus HK\$209.5 million in the corresponding Reporting Period last year. The increase was mainly attributable to higher building management expenses, allowance for credit losses, and advertising and promotion expenses in an effort to drive tenants’ sales during the fifth wave of the pandemic. The increase was partially offset by savings in utility expenses.

As a result, net property income decreased by 5.9% year-on-year to HK\$634.0 million (first half of 2021: HK\$674.1 million). The decrease in revenue and increase in operating cost have led to a lower profit margin. The cost-to-revenue ratio was 24.7% (first half of 2021: 23.2%) for the Reporting Period.

Finance costs (excluding change in fair value of derivative financial instruments) grew 2.6% year-on-year to HK\$99.0 million (first half of 2021: HK\$96.5 million) due to increased borrowing levels during the Reporting Period. Effective borrowing cost for the Reporting Period remained at 2.2% (first half of 2021: 2.2%).

Income available for distribution for the Reporting Period was HK\$456.9 million, compared with HK\$490.8 million last year. The Board has decided to resume a 100% distribution payout ratio for the Reporting Period (FY2021: 90%), and accordingly, DPU was 23.05 HK cents (first half of 2021: 24.96 HK cents), representing a 7.7% decrease year-on-year. Based on the closing unit price of HK\$6.50 as at 30 June 2022, the DPU implied an annualised distribution yield of 7.2%.

The interim DPU of 23.05 HK cents for the six months ended 30 June 2022 will be paid on 16 September 2022 to Unitholders on the register of Unitholders of Fortune REIT as at 23 August 2022.

Capital Management

During the Reporting Period, Fortune REIT secured a 5-year HK\$1,200 million new sustainability-linked loan facility and a HK\$200 million new uncommitted revolving loan facility for the purpose of refinancing and other general corporate use.

As at 30 June 2022, Fortune REIT's total loan facilities drawn amounted to HK\$8,930 million (31 December 2021: HK\$8,900 million), and accordingly, gearing ratio was 22.4% (31 December 2021: 22.4%). Gross liability as a percentage of its gross assets remained at 26.8% as at 30 June 2022 (31 December 2021: 26.5%).

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements. As at 30 June 2022, available liquidity was HK\$492.6 million (31 December 2021: HK\$418.0 million), comprising committed but undrawn facilities of HK\$300.0 million (31 December 2021: HK\$300.0 million) and bank deposits of HK\$192.6 million (31 December 2021: HK\$118.0 million). In addition, HK\$470.0 million of uncommitted revolving loan facilities remained undrawn at the end of the Reporting Period.

As at 30 June 2022, the fixed rate debt portion was approximately 70% (31 December 2021: approximately 70%) so as to manage the impact from the expected interest rate hikes.

Net asset value per unit amounted to HK\$14.72 as at 30 June 2022, decreasing 0.5% from HK\$14.79 at the end of 2021.

Portfolio Valuation

Fortune REIT's portfolio of 16 retail properties was appraised at HK\$39,201 million as at 30 June 2022, down by 0.8% from the valuation as at 31 December 2021. The decrease was mainly attributable to lower rental rate assumptions. Colliers International. (Hong Kong) 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%. The lower valuation has resulted in a revaluation loss of HK\$382.6 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2022, 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	8,093	98.0%	653
+WOO	665,244	7,790	88.6%	622
Ma On Shan Plaza	310,084	5,713	99.5%	290
Metro Town	180,822	3,585	99.0%	74
Laguna Plaza	163,203	2,512	98.9%	150
Belvedere Square	276,862	2,508	91.0%	329
Fortune Metropolis	332,168	2,483	83.6%	179
Waldorf Avenue	80,842	1,768	100.0%	73
Caribbean Square	63,018	1,207	99.1%	117
Jubilee Square	170,616	927	95.3%	97
Tsing Yi Square	78,836	827	98.5%	27
Smartland	123,544	799	98.2%	67
Centre de Laguna	43,000	326	92.0%	N.A
Hampton Loft	74,734	318	100.0%	35
Lido Avenue	9,836	211	100.0%	N.A
Rhine Avenue	14,604	134	100.0%	N.A
Total / Overall average	3,001,882	39,201	93.9%	2,713

BUSINESS REVIEW

Although Hong Kong's retail market experienced a detrimental impact from the fifth wave of COVID-19 in the beginning of 2022, the situation stabilised considerably towards the end of the Reporting Period.

In the beginning of 2022, the rapid worsening of the pandemic situation prompted the government to re-impose tough social distancing measures, tightening to their most stringent level in February 2022. Public gatherings were limited to two persons, dine-in services suspended after 6 pm while scheduled premises including cinemas, gyms, beauty parlours and hair salons were mandated to close. Footfall and hourly carpark income of Fortune Malls suffered a hard hit and broke their new lows in March 2022 since COVID-19 emerged in 2020.

Similar to the previous waves, local consumption picked up notably and swiftly in April 2022 as soon as the pandemic situation subsided and social distancing measure were relaxed. Along with the disbursement of a new round of the Government's Consumption Voucher Scheme, mall traffic and hourly carpark income rebounded in April 2022, improving by 20.3% and 46.9% from March. As consumer confidence gradually returned and supported by the pent-up demand, the uptick of mall traffic continued in May and June. Hong Kong retail sales value deteriorated 7.6% year-on-year in the first quarter but bounced back in April, accordingly, year-on-year decrease for the first six months narrowed to 2.6%.

To support our tenants in riding through the fifth wave of the pandemic, we have initiated a new round of rental concessions with priority granted to businesses impacted by mandatory closure and operating restrictions. On a case-by-case basis, the relief measures were offered to tenants to relieve their operating pressures during this most difficult period while incentivising timely rent payment as they resumed operations.

Thanks to Fortune REIT's flexible leasing strategy, portfolio occupancy remained healthy at 93.9% as at 30 June 2022. Despite a sluggish retail market, leases covering a total of 582,355 sq.ft., almost one fifth of total portfolio area, have been signed for renewals and new lettings in the first half of 2022. A strong tenant retention of 81% was recorded for the Reporting Period as Fortune Malls continue to be the preferred business venue for our tenants. Negative rental reversion has narrowed further in the Reporting Period as market rent is searching for its bottom level into the third year of its down cycle since 2020.

As the pandemic substantially subsided in April 2022 with business activities mostly resuming, the Manager has spared no efforts in boosting mall traffic and driving tenants' sales. Targeted marketing campaigns were launched with attractive offers of free parking as well as redemption of auspicious gift and cash coupons. With Fortune Malls APP celebrating its second anniversary in June 2022, the new Fortune Malls eVouchers were introduced to reward loyalty programme members and attracted new members to sign up. The APP remains a key tool for retaining and expanding the customer base.

Enhancement Initiatives to Capture Eventual Upturn

Fortune REIT has continued to make progress on the AEIs at +WOO Phase 2. The first stage of the three-stage project was completed in July 2022, despite encountering a labour shortage and logistic disruptions during the fifth wave of COVID-19.

Refurbished with a customer-friendly mall layout, upgraded family facilities, contemporary ambient lighting and a brand new entrance leading from the Ginza Light Rail Station, the renovated area offers an unmatched and improved shopping atmosphere. With its elevated positioning, the enhanced area has reopened for business and has attracted satisfactory leasing demand from a wide range of dining choices, lifestyle goods and sports and wellness centres.

With completion slated for the end of 2023, the HK\$300 million AEIs project will uplift +WOO's positioning via capitalising on a rich array of offerings, complemented with the only cinema in Tin Shui Wai, creating value propositions for unparalleled competitive advantage. Going forward, the Manager will seek to optimise the tenant mix and strengthen the food and beverage offerings to tap the expanding catchment, thereby laying a solid foundation to capture the eventual market upturn.

Outlook

The Hong Kong economy improved in the second quarter of 2022 as the decline in GDP narrowed to 1.4% year-on-year from 3.9% year-on-year in the first quarter. The easing of labour market pressure, revival of business activities as well as the government's next round disbursement of the Consumption Voucher Scheme in August are expected to further fuel local consumption.

Externally, geopolitical tensions, interest rate hikes and inflationary pressure in major economies, coupled with the evolving global pandemic, will continue to weigh on the economic outlook in the near term. Nevertheless, with China's COVID-19 situation under control and its major cities gradually reopening, restrictions have been eased for international travellers. Relaxation of cross-border controls and quarantine requirements locally is crucial for a broad-based recovery in Hong Kong.

Focusing predominantly on a non-discretionary trade mix, Fortune REIT has always enjoyed a stable income stream from its high proportion of fixed rent. The ongoing priority is to maintain a high occupancy while continuing to strengthen the operating environment for tenants. On the other hand, the Manager continues its commitment in driving long term growth by progressing on the renovation at +WOO as well as exploring new AEIs opportunities within the portfolio. On the capital management front, the 70% hedged debt portion will provide reasonable protection against interest rate hikes. Looking ahead, Fortune REIT will continue to build portfolio resilience and focus on value creation and growth, with the aim to deliver stable distributions and sustainable returns to our unitholders.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2022, the total number of issued units of Fortune REIT was 1,977,947,795. As compared with the position as at 31 December 2021, a total of 7,904,215 new units were issued during the Reporting Period in the following manner:

- On 4 January 2022, 3,760,827 new units were issued to the Manager at the price of HK\$7.942 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.9 million payable by Fortune REIT for the period from 1 October 2021 to 31 December 2021.
- On 8 April 2022, 4,143,388 new units were issued to the Manager at the price of HK\$7.052 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.2 million payable by Fortune REIT for the period from 1 January 2022 to 31 March 2022.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 240,000 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 Appendix 14 (the “**Corporate Governance Code**”) to 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 Corporate Governance 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, 23 August 2022. 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, 23 August 2022. The payment of interim distribution will be made to unitholders on Friday, 16 September 2022.

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 2022.

ISSUANCE OF 2022 INTERIM REPORT

The 2022 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 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, 5 August 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.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	5	867,499	904,398
Property operating expenses	6	<u>(213,869)</u>	<u>(209,463)</u>
Net property income before manager's performance fee		653,630	694,935
Manager's performance fee		<u>(19,609)</u>	<u>(20,849)</u>
Net property income		634,021	674,086
Manager's base fee		(58,539)	(57,955)
Interest income		15	31
Trust expenses		(2,574)	(7,834)
Change in fair value of investment properties	11	(382,623)	(257,938)
Finance costs	7	<u>294,264</u>	<u>(42,981)</u>
Profit before taxation and transactions with unitholders	8	484,564	307,409
Income tax expense	9	<u>(95,543)</u>	<u>(102,923)</u>
Profit for the period, before transactions with unitholders		389,021	204,486
Distributions to unitholders		<u>(456,911)</u>	<u>(490,847)</u>
Net comprehensive expense for the period		<u>(67,890)</u>	<u>(286,361)</u>
Basic earnings per unit (HK cents)	10	<u>19.66</u>	<u>10.42</u>

Distribution Statement

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Profit for the period, before transactions with unitholders		389,021	204,486
Adjustments:			
Manager's base fee		58,539	57,955
Change in fair value of investment properties		382,623	257,938
Change in fair value of derivative financial instruments		(393,276)	(53,551)
Non-cash finance costs		3,983	8,923
Deferred tax		16,021	15,096
Income available for distribution	(i)	456,911	490,847
Percentage of distributable to unitholders		100%	100%
Distribution to unitholders	(ii)	456,911	490,847
Distribution per unit (HK cents)	(iii)	23.05	24.96

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 amounts of HK\$ 456.9 million for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$490.8 million), represented a payout ratio of 100% (six months ended 30 June 2021:100%) of Fortune REIT's income available for distribution of HK\$ 456.9 million for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$490.8 million).
- (iii) The distribution per unit of 23.05 HK cents for the six months ended 30 June 2022 was calculated based on the interim distribution to unitholders amount of HK\$456.9 million over 1,982,478,110 units, represented issued units as at 30 June 2022 of 1,977,947,795 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 2022 of 4,530,315 units. 2022 interim distribution will be paid on 16 September 2022.
- (iv) 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 was paid on 17 September 2021.

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	39,201,000	39,500,000
Derivative financial instruments		353,787	21,012
Total non-current assets		39,554,787	39,521,012
Current assets			
Trade and other receivables	12	117,128	76,782
Taxation recoverable		-	8,955
Bank balances		192,607	117,962
Total current assets		309,735	203,699
Total assets		39,864,522	39,724,711
Non-current liabilities			
Derivative financial instruments		-	60,501
Borrowings	13	8,437,517	7,240,917
Deferred tax liabilities		578,482	562,461
Total non-current liabilities		9,015,999	7,863,879
Current liabilities			
Trade and other payables	14	717,218	685,870
Borrowings	13	430,000	1,599,600
Distribution payable		456,911	392,184
Provision for taxation		70,567	-
Total current liabilities		1,674,696	2,677,654
Total liabilities, excluding net assets attributable to unitholders		10,690,695	10,541,533
Net assets attributable to unitholders		29,173,827	29,183,178
Units in issue and to be issued ('000)	15	1,982,478	1,973,804
Net asset value per unit attributable to unitholders (HK\$)	16	14.72	14.79

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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3
Amendments to IFRSs

Reference to the Conceptual Framework
Annual Improvements to IFRSs 2018-2020

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 2021: 16) properties as at 30 June 2022 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>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue arising from operating lease:		
Fixed	692,255	724,934
Variable	2,618	2,029
Charge-out collections	116,101	121,345
Car park revenue	55,383	55,528
Other income	1,142	562
	<u>867,499</u>	<u>904,398</u>

(6) Property operating expenses

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Advertising and promotion	15,584	14,504
Building management expenses	109,727	105,453
Car park operating expenses	15,238	15,035
Government rents and rates	6,805	6,526
Leasing commission and marketing services fee	13,323	13,625
Legal and other professional fees	3,436	3,821
Property management fee	20,880	21,826
Utilities	16,649	18,921
Others	12,227	9,752
	<u>213,869</u>	<u>209,463</u>

(7) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on bank borrowings	57,949	54,632
Amortisation of front-end fees	9,000	9,200
Commitment fee	403	733
Interest rate swaps expenses realised	31,660	31,967
	<u>99,012</u>	<u>96,532</u>
Change in fair value of derivative financial instruments	<u>(393,276)</u>	<u>(53,551)</u>
	<u>(294,264)</u>	<u>42,981</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</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	3,092	1,658
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>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current Tax	79,522	87,827
Deferred taxation	16,021	15,096
	<u>95,543</u>	<u>102,923</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2021: 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 per unit

Basic earnings per unit is calculated by dividing the profit for the six months ended 30 June 2022, before transactions with unitholders of HK\$389.0 million by the weighted average of 1,978,780,348 units outstanding during the period.

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.

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

(11) Investment properties

	<i>Fair Value HK\$'000 (Unaudited)</i>
As at 1 January 2022	39,500,000
During the period:	
Capital expenditure incurred in upgrading investment properties	83,623
Change in fair value of investment properties	<u>(382,623)</u>
As at 30 June 2022	<u>39,201,000</u>

(12) Trade and other receivables

	<i>30 June 2022 HK\$'000 (Unaudited)</i>	<i>31 December 2021 HK\$'000 (Audited)</i>
Trade receivables	88,129	52,380
Less: Allowance for credit losses	<u>(7,992)</u>	<u>(6,627)</u>
	<u>80,137</u>	<u>45,753</u>
Other receivables and prepayments		
Security deposits	25,672	25,672
Other receivables	964	1,076
Prepayments	<u>10,355</u>	<u>4,281</u>
	<u>36,991</u>	<u>31,029</u>
	<u>117,128</u>	<u>76,782</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 2022 HK\$'000 (Unaudited)</i>	<i>31 December 2021 HK\$'000 (Audited)</i>
0 - 30 days	59,054	45,030
31 - 90 days	16,198	723
Over 90 days	<u>4,885</u>	<u>-</u>
	<u>80,137</u>	<u>45,753</u>

(13) Borrowings

	<i>30 June 2022 HK\$'000 (Unaudited)</i>	<i>31 December 2021 HK\$'000 (Audited)</i>
Unsecured term loans	7,200,000	7,200,000
Unsecured revolving loans	1,730,000	1,700,000
	<u>8,930,000</u>	<u>8,900,000</u>
Less: unamortised front end fees	(62,483)	(59,483)
	<u>8,867,517</u>	<u>8,840,517</u>
Carrying amount repayable:		
Within one year	430,000	1,599,600
More than one year, but not more than two years	1,496,065	1,494,564
More than two years, but not more than five years	6,941,452	5,746,353
	<u>8,867,517</u>	<u>8,840,517</u>
Less: Amount due within one year shown under current liabilities	(430,000)	(1,599,600)
	<u>8,437,517</u>	<u>7,240,917</u>

(14) Trade and other payables

	<i>30 June 2022 HK\$'000 (Unaudited)</i>	<i>31 December 2021 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits	462,686	458,400
Rental received in advance	70,735	36,025
	<u>533,421</u>	<u>494,425</u>
Other payables		
Trustee's fee	419	1,006
Manager's performance fees	6,388	3,465
Operating expenses	165,561	170,359
Interest payable	5,304	10,321
Others	6,125	6,294
	<u>183,797</u>	<u>191,445</u>
	<u>717,218</u>	<u>685,870</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\$291.4 million (31 December 2021: HK\$275.2 million) as at 30 June 2022.

(15) Units in issue and to be issued

	<i>Number of units</i> <i>'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2021	1,958,887	8,363,445
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2021	<u>11,156</u>	<u>87,324</u>
Balance in issue as at 31 December 2021	1,970,043	8,450,769
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2021	<u>3,761</u>	<u>29,869</u>
Balance as at 31 December 2021	1,973,804	8,480,638
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2022	<u>4,144</u>	<u>29,219</u>
Balance in issue as at 30 June 2022	1,977,948	8,509,857
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2022	<u>4,530</u>	<u>29,320</u>
Balance as at 30 June 2022	<u>1,982,478</u>	<u>8,539,177</u>

(16) Net asset value per unit attributable to unitholders

Net asset value per unit as at 30 June 2022 is calculated based on the net assets attributable to unitholders of the Group of HK\$29,173.8 million (31 December 2021: HK\$29,183.2 million) and the total number of 1,982,478,110 units (31 December 2021: 1,973,804,407 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 2022, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,365.0 million (31 December 2021: HK\$2,474.0 million).

As at 30 June 2022, the Group's total assets less current liabilities amounted to HK\$38,189.8 million (31 December 2021: HK\$37,047.1 million).