

FORTUNE

置富產業信託 REIT

Stock Code 股份代號 : 778

ONE TEAM ONE FORTUNE

置富有您 · 齊創共融

INTERIM REPORT 中期報告2022



ABOUT THE MANAGER

Fortune REIT is managed by ARA Asset Management (Fortune) Limited, a part of the ESR Group ("ESR"). ESR is APAC's largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally. With US\$140 billion in gross assets under management (AUM), ESR's fully integrated development and investment management platform extends across key APAC markets, including China, Japan, South Korea, Australia, Singapore, India, New Zealand and Southeast Asia, representing over 95% of GDP in APAC, and also includes an expanding presence in Europe and the U.S. ESR provides a diverse range of real asset investment solutions and New Economy real estate development opportunities across its private funds business, which allows capital partners and customers to capitalise on the most significant secular trends in APAC. ESR is the largest sponsor and manager of REITs in APAC with a total AUM of US\$45 billion. ESR's purpose – Space and Investment Solutions for a Sustainable Future – drives ESR to manage sustainably and impactfully and it considers the environment and the communities in which it operates as key stakeholders of its business. Listed on the Main Board of The Stock Exchange of Hong Kong, ESR is a constituent of the FTSE Global Equity Index Series (Large Cap), Hang Seng Composite Index and MSCI Hong Kong Index. More information can be found at www.esr.com.

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ABOUT FORTUNE REIT

Established in 2003, Fortune Real Estate Investment Trust ("**Fortune REIT**") is a real estate investment trust constituted by a trust deed (the "**Trust Deed**") (as amended, supplemented or otherwise modified from time to time). It is the first REIT to hold assets in Hong Kong and is currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

As at 30 June 2022, 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.

OUR MISSION

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



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FINANCIAL HIGHLIGHTS

Revenue

(HK\$ million)

867.5

Six months ended
30 June 2022

904.4

Six months ended
30 June 2021

Net Property Income

(HK\$ million)

634.0

Six months ended
30 June 2022

674.1

Six months ended
30 June 2021



	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%

Net Asset Value Per Unit

(HK\$)

14.72

As at
30 June 2022

14.79

As at
31 December 2021

Property Valuation

(HK\$ million)

39,201

As at
30 June 2022

39,500

As at
31 December 2021



	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:

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



YIELD-ACCRETIVE ACQUISITION

Since its establishment in 2003, Fortune REIT's portfolio valuation has increased by more than 11 times to currently HK\$39.2 billion. On 5 August 2022, Fortune REIT announced to enter Singapore by acquiring Stars of Kovan Property for S\$88 million. Fully funded by debt, the acquisition is expected to be DPU-accretive for Unitholders. Completion of the acquisition is slated for late September 2022.



ACTIVE LEASING MANAGEMENT

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.



3 GROWTH STRATEGIES



ASSET ENHANCEMENT INITIATIVES ("AEIs")

Fortune REIT continued to make progress on the renovation at +WOO Phase 2. The first stage of the three-stage project was completed in July 2022 and has been reopened for business. The enhanced area has attracted satisfactory leasing demand from a wide range of dining choices, lifestyle goods and sports, and wellness centres.



MANAGEMENT DISCUSSION AND ANALYSIS

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.

Management Discussion and Analysis

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 disbursal 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.

CORPORATE GOVERNANCE

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

Fortune REIT is a real estate investment trust listed on the SEHK. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong, including the code provisions set out in Appendix 14 (the "**Corporate Governance Code**") to the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

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

During the Reporting Period, no amendments have been made to the Trust Deed. The Compliance Manual has been amended for the establishment of a Nomination Committee with clear terms of reference and miscellaneous amendments under the revised Corporate Governance Code.

Board of Directors of the Manager

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

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

As at 30 June 2022, the Board comprised nine members, eight of whom are Non-Executive Directors ("**NEDs**"). Four of the NEDs are Independent Non-Executive Directors ("**INEDs**"). The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties.

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

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

Interests of, and dealings in Units by Directors, the Manager or the Substantial Unitholders

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

Corporate Governance

Changes of Directors' Information

Subsequent to publication of the Annual Report 2021 of Fortune REIT, the Manager received notifications regarding the following changes of Directors' information during the Reporting Period:

- Mr. Chui Sing Loi, Dr. Chiu Kwok Hung, Justin, Ms. Koh Poh Wah and Ms. Yeo Annie have been appointed as members of the Nomination Committee of the Manager commencing on 27 May 2022, and Mr. Chui Sing Loi is the Chairman of the Nomination Committee.
- Ms. Cheng Ai Phing completed her term as a member of Financial Reporting Committee of The Institute of Singapore Chartered Accountants ("**ISCA FRC**") in April 2022, but remains as a member of ISCA FRC Core Sub Committee. Ms. Cheng also completed her term as a Member of The Accounting & Corporate Regulatory Authority of Singapore – Technical Advisory Panel in June 2022.

Review of Interim Report

The interim report of Fortune REIT for the Reporting Period has been reviewed by the Audit Committee and the Disclosures Committee of the Manager. The interim financial statements have also been reviewed by the Auditor, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by International Auditing and Assurance Standards Board.

CONNECTED PARTY TRANSACTIONS

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

Connected Party Transactions – Income

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

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the six months ended 30 June 2022 HK\$'000	Rental deposit received as at 30 June 2022 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Leasing and licensing transactions	2,602	1,463
Cheung Kong Property Development Limited	Associate of a substantial holder ¹	Leasing and licensing transactions	15,930	97
Citybase Property Management Limited	Associate of a substantial holder ¹	Leasing transactions	1,146	638
Towerich Limited	Associate of a substantial holder ¹	Licensing transactions	36	20
Total			19,714	2,218

Note:

- The substantial holder being Focus Eagle Investments Limited (“**Focus Eagle**”).

Connected Party Transactions

Connected Party Transactions – Expenses

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

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2022 HK\$'000
Citybase Property Management Ltd	Associate of a substantial holder ¹	Property management and operations	547
E-Park Parking Management Limited	Associate of a substantial holder ¹	Carpark lease agency fee	4,682
Goodwell-Fortune Property Services Limited	Associate of a substantial holder ¹	Property and lease management fee and marketing service fee	34,035
Goodwell Property Management Limited	Associate of a substantial holder ¹	Property management and operations	100
Total			39,364

Note:

1. The substantial holder being Focus Eagle.

Connected Party Transactions

Connected Party Transactions – Others

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

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2022 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Manager's fee	78,148
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee's fee	2,543
Total			80,691

Connected Party Transactions

Connected Party Transactions with the Trustee Connected Persons

Leasing/licensing transactions

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

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the six months ended 30 June 2022 HK\$'000	Rental deposit received as at 30 June 2022 HK\$'000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing and licensing transactions	7,302	3,547
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	Trustee Connected Persons	Leasing and licensing transactions	4,905	2,106
Total			12,207	5,653

Note:

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

Provision of Ordinary Banking and Financial Services

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

DISCLOSURE OF INTERESTS

Unit Capital

The total number of issued units as at 30 June 2022 is 1,977,947,795 units.

Holdings of Substantial Unitholders

As at 30 June 2022, each of the following persons was considered a “substantial holder”, and hence a “connected person” of Fortune REIT, for the purpose of the REIT Code:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Focus Eagle ¹	413,074,684	20.88%	–	–
CK Asset Holdings Limited (“ CK Asset ”) ¹	–	–	525,630,684	26.57%

Note:

1. CK Asset was deemed to hold 525,630,684 units, of which: (i) 413,074,684 units were held by Focus Eagle; and (ii) 112,556,000 units were held by Ballston Profits Limited. Focus Eagle and Ballston Profits Limited were indirect wholly-owned subsidiaries of CK Asset.

Disclosure of Interests

Interests of the Manager

As at 30 June 2022, the Manager held 11,486,865 units, or approximately 0.58% of the issued units of Fortune REIT.

Interests of the Directors

Details of the unitholding interests of the Directors of Fortune REIT as at 30 June 2022 were as follows:

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

Note:

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

Holdings of the Other Connected Persons

HSBC Group, being the Trustee Connected Persons of Fortune REIT, did not hold any beneficial interest in any unit of Fortune REIT as at 30 June 2022 and 31 December 2021.

Saved as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Fortune REIT holding any units of Fortune REIT as at 30 June 2022.

To the best knowledge of the Manager and save as disclosed, the following sets out changes in the beneficial interest of certain connected persons of Fortune REIT, in compliance with paragraph 8.2(a) of the REIT Code, by reference to comparison of their respective beneficial interests as at 30 June 2022 and 31 December 2021:

The Manager was beneficially interested in 11,486,865 units as at 30 June 2022 and 3,822,650 units as at 31 December 2021.

OTHER INFORMATION

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.

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.

CORPORATE INFORMATION

Manager

ARA Asset Management (Fortune) Limited

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Hung Hom, Kowloon,
Hong Kong

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Directors of the Manager

CHUI Sing Loi (alias TSUI Sing Loi)
Chairman and Independent Non-Executive Director

CHIU Kwok Hung, Justin
Non-Executive Director

LIM Hwee Chiang
Non-Executive Director

YEUNG, Eirene
Non-Executive Director

MA Lai Chee, Gerald
Non-Executive Director

CHIU Yu, Justina
Chief Executive Officer and Executive Director

CHENG Ai Ping
Independent Non-Executive Director

YEO Annie (alias YEO May Ann)
Independent Non-Executive Director

KOH Poh Wah
Independent Non-Executive Director

Company Secretary of the Manager

LOW Mei Mei, Maureen
CHIANG Wai Ming

Trustee

HSBC Institutional Trust Services (Asia) Limited

Stock Code

778

Legal Adviser of the Manager

Baker McKenzie

Unit Registrar

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

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Fortune Real Estate Investment Trust ("**Fortune REIT**") and its subsidiaries set out on pages 24 to 49, which comprise the condensed consolidated statement of financial position as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders, statement of cash flows and distribution statement for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board. ARA Asset Management (Fortune) Limited, as manager of Fortune REIT, is responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Report on Review of Condensed Consolidated Financial Statements

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
5 August 2022

FINANCIAL STATEMENTS

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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	4	867,499	904,398
Property operating expenses	6	(213,869)	(209,463)
Net property income before manager's performance fee		653,630	694,935
Manager's performance fee		(19,609)	(20,849)
Net property income		634,021	674,086
Manager's base fee		(58,539)	(57,955)
Interest income		15	31
Trust expenses	7	(2,574)	(7,834)
Change in fair value of investment properties	12	(382,623)	(257,938)
Finance costs	8	294,264	(42,981)
Profit before taxation and transactions with unitholders	9	484,564	307,409
Income tax expense	10	(95,543)	(102,923)
Profit for the period, before transactions with unitholders		389,021	204,486
Distributions to unitholders		(456,911)	(490,847)
Net comprehensive expense for the period		(67,890)	(286,361)
Basic earnings per unit (HK cents)	11	19.66	10.42

DISTRIBUTION STATEMENT

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 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	12	382,623	257,938
Change in fair value of derivative financial instruments	8	(393,276)	(53,551)
Non-cash finance costs		3,983	8,923
Deferred tax	10	16,021	15,096
Income available for distribution (note (i))		456,911	490,847
Percentage of distribution to unitholders		100%	100%
Distribution to unitholders (note (ii))		456,911	490,847
Distribution per unit (HK cents) (note (iii))		23.05	24.96

Distribution Statement

For the six months ended 30 June 2022

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\$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.
- (iii) The distribution per unit of 23.05 HK cents for the six months ended 30 June 2022 is 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 is 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	12	39,201,000	39,500,000
Derivative financial instruments	13	353,787	21,012
Total non-current assets		39,554,787	39,521,012
Current assets			
Trade and other receivables	14	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	13	–	60,501
Borrowings	15	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	16	717,218	685,870
Borrowings	15	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)	17	1,982,478	1,973,804
Net asset value per unit attributable to unitholders (HK\$)	18	14.72	14.79

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the six months ended 30 June 2022

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2022 (Audited)	8,480,638	(286,279)	20,988,819	29,183,178
OPERATIONS				
Profit for the period, before transactions with unitholders	–	–	389,021	389,021
Distribution paid and payable of 23.05 HK cents per unit for the six months ended 30 June 2022	–	–	(456,911)	(456,911)
Net comprehensive expense for the period	–	–	(67,890)	(67,890)
UNITHOLDERS' TRANSACTIONS				
Creation of units				
– Manager's base fee paid/payable in units	58,539	–	–	58,539
Increase in net assets resulting from unitholders' transactions	58,539	–	–	58,539
Net assets attributable to unitholders as at 30 June 2022 (Unaudited)	8,539,177	(286,279)	20,920,929	29,173,827

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2022

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2021 (Audited)	8,363,445	(286,279)	20,554,336	28,631,502
OPERATIONS				
Profit for the period, before transactions with unitholders	–	–	204,486	204,486
Distribution paid and payable of 24.96 HK cents per unit for the six months ended 30 June 2021	–	–	(490,847)	(490,847)
Net comprehensive expense for the period	–	–	(286,361)	(286,361)
UNITHOLDERS' TRANSACTIONS				
Creation of units				
– Manager's base fee paid/payable in units	57,955	–	–	57,955
Increase in net assets resulting from unitholders' transactions	57,955	–	–	57,955
Net assets attributable to unitholders as at 30 June 2021 (Unaudited)	8,421,400	(286,279)	20,267,975	28,403,096

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities		
Profit before taxation and transactions with unitholders	484,564	307,409
Adjustments for:		
Change in fair value of investment properties	382,623	257,938
Change in fair value of derivative financial instruments	(393,276)	(53,551)
Other finance costs	99,012	96,532
Other operating activities	54,543	25,524
	627,466	633,852
Net cash used in investing activities:		
Upgrading of investment properties	(83,623)	(22,938)
Interest received	15	31
	(83,608)	(22,907)
Net cash used in financing activities:		
Drawdown of borrowings	1,530,000	600,000
Repayment of borrowings	(1,500,000)	(600,000)
Distribution paid	(392,184)	(481,145)
Interest paid	(95,029)	(87,609)
Payment of front-end fees	(12,000)	–
	(469,213)	(568,754)
Net increase in cash and cash equivalents	74,645	42,191
Cash and cash equivalents at beginning of the period	117,962	177,167
Cash and cash equivalents at end of the period, represented by bank balances	192,607	219,358

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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	Reference to the Conceptual Framework
Amendments to IFRSs	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 positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4 REVENUE

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
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
	867,499	904,398

Notes:

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5 SEGMENTAL REPORTING

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

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

6 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
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
	213,869	209,463

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

7 TRUST EXPENSES

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Trustee's fee	2,543	5,807
Other charges	31	2,027
	2,574	7,834

8 FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
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 expense realised	31,660	31,967
	99,012	96,532
Change in fair value of derivative financial instruments	(393,276)	(53,551)
	(294,264)	42,981

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

9 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees to external auditor		
– Audit services	804	804
– Non-audit services	660	660
Fees to internal auditor	175	175
Allowance for credit losses	3,092	1,658
Valuation fees (paid to principal valuer)	154	154

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

10 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax	79,522	87,827
Deferred taxation	16,021	15,096
	95,543	102,923

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%) for the period.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

11 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.

12 INVESTMENT PROPERTIES

	Fair Value HK\$'000 (Unaudited)
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	(382,623)
As at 30 June 2022	39,201,000

12 INVESTMENT PROPERTIES (Continued)

Notes:

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

On 30 June 2022 and 31 December 2021, independent valuations were undertaken by Colliers International (Hong Kong) Limited ("**Colliers**") and Jones Lang LaSalle Limited ("**Jones Lang**") respectively. These firms are independent qualified external valuers not related to the Group and have appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value of investment properties falls under Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the period. The valuation of the properties is principally arrived at using income capitalisation approach which is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rent, management fees and air-conditioning charges) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield which is the capitalisation rate adopted is made by reference to the yields derived from similar properties in Hong Kong and adjusted to take account of the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The adopted capitalisation rates in the valuation range from 4.0% - 4.8% (31 December 2021: 4.0% - 4.8%). The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and it involves the exercise of professional judgment in relation to the adjustments made by the valuer. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

- (ii) None of the investment properties as at 30 June 2022 and 31 December 2021 was pledged to secure banking facilities granted to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

13 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Derivative financial instruments are analysed as:		
Derivatives not under hedge accounting:		
Interest rate swaps	353,787	(39,489)
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Non-current assets	353,787	21,012
Non-current liabilities	–	(60,501)
	353,787	(39,489)

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

13 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives not under hedge accounting:

Contracts not under hedge accounting with total notional amount of HK\$6,000.0 million (31 December 2021: HK\$6,000.0 million) as at 30 June 2022 will mature from March 2024 to December 2028 (31 December 2021: March 2024 to December 2028). These contracts have fixed interest payments at rates ranging from 0.900% to 2.245% (31 December 2021: 0.900% to 2.245%) per annum and have floating interest receipts at three months Hong Kong Inter-bank Offered Rate ("**HIBOR**").

The change in fair value of the derivative financial instruments not under hedge accounting amounting to a gain of HK\$393.3 million (six months ended 30 June 2021: HK\$53.6 million), is recognised in the profit or loss for the six months ended 30 June 2022.

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

The fair value of derivative financial instruments falls under Level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties. There were no transfers between Level 1 or 2 during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

14 TRADE AND OTHER RECEIVABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade receivables	88,129	52,380
Less: Allowance for credit losses	(7,992)	(6,627)
	80,137	45,753
Other receivables and prepayments:		
– Security deposits	25,672	25,672
– Other receivables	964	1,076
– Prepayments	10,355	4,281
	36,991	31,029
	117,128	76,782

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0 - 30 days	59,054	45,030
31 - 90 days	16,198	723
Over 90 days	4,885	–
	80,137	45,753

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

14 TRADE AND OTHER RECEIVABLES (Continued)

The following table shows the movement of lifetime expected credit loss that has been recognised for trade receivables under the simplified approach that are credit-impaired.

	HK\$'000 (Unaudited)
As at 1 January 2022	6,627
Increase in allowance for credit losses recognised in profit or loss	3,092
Write-off during the period	(1,727)
As at 30 June 2022	7,992

There is no credit period given on billing for rental of properties. No interest is charged on the trade receivables for the first 10 days from the date of the invoice. The carrying amount of trade receivables include accrued rentals in respect of rent free periods amounted to HK\$41.3 million (31 December 2021: HK\$44.0 million).

As at 30 June 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$38.8 million (31 December 2021: HK\$1.7 million) which are past due as at the reporting date. Included in the past due balances, an aggregate gross carrying amount of HK\$12.9 million (31 December 2021: HK\$6.6 million) has been past due 90 days or more and considered as default for which allowance for credit losses has been made excess of relevant tenants' deposits.

In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants. Allowance for credit losses has been recognised on any individual balance that is in excess of the relevant tenant's deposits.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15 BORROWINGS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Unsecured term loans	7,200,000	7,200,000
Unsecured revolving loans	1,730,000	1,700,000
	8,930,000	8,900,000
Less: unamortised front-end fees	(62,483)	(59,483)
	8,867,517	8,840,517
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
	8,867,517	8,840,517
Less: Amount due within one year shown under current liabilities	(430,000)	(1,599,600)
	8,437,517	7,240,917

On 28 January 2022, Fortune REIT, through its wholly-owned subsidiary, entered into a HK\$1,200 million 5-year term loan facility agreement (the "New Facilities"). The New Facilities are used to refinance the outstanding amount of a term loan amounted to HK\$1,200 million due in March 2022 as well as for other general corporate purpose.

As at 30 June 2022, total committed loan facilities amounted to HK\$9,000 million (31 December 2021: HK\$9,000 million), bear interest at HIBOR plus a margin ranging from 0.98% to 1.25% (31 December 2021: HIBOR plus a margin ranging from 0.98% to 1.25%) per annum.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

16 TRADE AND OTHER PAYABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables		
Tenants' deposits	462,686	458,400
Rental received in advance	70,735	36,025
	533,421	494,425
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
	183,797	191,445
	717,218	685,870

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. Included in rental received in advance are contract liabilities amounting HK\$7.4 million (31 December 2021: HK\$6.8 million) related to the non-reserved carpark and charge-out collections.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

17 UNITS IN ISSUE AND TO BE ISSUED

	Number of units '000	HK\$'000
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	11,156	87,324
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 (note)	3,761	29,869
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	4,144	29,219
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 (note)	4,530	29,320
Balance as at 30 June 2022	1,982,478	8,539,177

Note: Manager's base fee payable to the Manager is in the form of units. On 8 July 2022, Fortune REIT issued 4,530,315 units at an issue price of HK\$6.472 per unit to the Manger as base fee for the period from 1 April 2022 to 30 June 2022. On 4 January 2022, Fortune REIT issued 3,760,827 units at an issue price of HK\$7.942 per unit to the Manager as base fee for the period from 1 October 2021 to 31 December 2021.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

18 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.

19 NET 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).

20 TOTAL ASSETS LESS CURRENT LIABILITIES

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).

21 CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments for upgrading investment properties which were contracted but not provided for of HK\$235.8 million (31 December 2021: HK\$287.0 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

22 CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Rent and rental related income from			
ARA Asset Management (Fortune) Limited	(a)	2,602	2,602
Cheung Kong Property Development Limited	(b)	15,930	14,354
Citybase Property Management Limited	(b)	1,146	1,146
Hang Seng Bank Limited	(c)	7,302	10,216
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	(c)	4,905	4,905
Towerich Limited	(b)	36	36
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(b)	4,682	4,000

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Property management fee and project management fee			
Citybase Property Management Limited	(b)	547	523
Goodwell-Fortune Property Services Limited	(b)	20,880	21,826
Goodwell Property Management Limited	(b)	100	100
Leasing commission and marketing services fee			
Goodwell-Fortune Property Services Limited	(b)	13,155	12,559
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	2,543	5,807
Manager's base fee			
ARA Asset Management (Fortune) Limited	(a)	58,539	57,955
Manager's performance fee			
ARA Asset Management (Fortune) Limited	(a)	19,609	20,849

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

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

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade receivables with connected and related companies are as follows:			
Cheung Kong Property Development Limited	(b)	2,284	–
Other payables with connected and related companies are as follows:			
ARA Asset Management (Fortune) Limited	(a)	6,388	3,465
HSBC Institutional Trust Services (Asia) Limited	(d)	419	1,006
Citybase Property Management Limited	(b)	17,075	21,838
E-Park Parking Management Limited	(b)	710	1,567
Goodwell-Fortune Property Services Limited	(b)	7,038	12,238
Goodwell Property Management Limited	(b)	14,091	17,605
		38,914	53,248
		45,721	57,719
Deposits placed with the Group for the lease of the Group's properties			
ARA Asset Management (Fortune) Limited	(a)	1,463	1,463
Cheung Kong Property Development Limited	(b)	97	97
Citybase Property Management Limited	(b)	638	638
Hang Seng Bank Limited	(c)	3,547	5,655
HSBC	(c)	2,106	2,106
Towerich Limited	(b)	20	20
		7,871	9,979

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) This company is the Manager of Fortune REIT.
- (b) Substantial holder of Fortune REIT (as defined in the REIT Code) being Focus Eagle Investments Limited ("**Focus Eagle**"), which holds more than 10% of the units of Fortune REIT as at 30 June 2022. These companies are subsidiaries of CK Asset Holdings Limited ("**CK Asset**") and CK Asset is the holding company of Focus Eagle.
- (c) These companies are fellow subsidiaries of the Trustee.
- (d) This company is the Trustee of Fortune REIT.

In addition, the Trustee (in its capacity as trustee of Fortune REIT) has provided guarantees for all loan facilities granted to the Group as at 30 June 2022 and 31 December 2021.

23 EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the current interim period, Fortune REIT has entered into a sales and purchase agreement to acquire a property located in Singapore at a consideration of SG\$88 million with expected completion date in late September 2022. The vendor of the above properties is an indirect wholly-owned subsidiary of a connected person of Fortune REIT.

PERFORMANCE TABLE

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Net assets attributable to unitholders (HK\$'000)	29,173,827	29,183,178
Net asset value per unit (HK\$)	14.72	14.79
The highest traded price during the period/year (HK\$)	8.24	8.88
The highest premium of the trade price to net asset value ¹	N.A.	N.A.
The lowest traded price during the period/year (HK\$)	6.34	6.93
The highest discount of the trade price to net asset value	56.9%	53.1%
The net yield per unit ²	7.2%	5.6%

Notes:

1. The highest traded price is lower than the net asset value per unit as at the end of the period. Accordingly, premium of the traded price to net asset value per unit had not been recorded.
2. The net yield per unit for the six months ended 30 June 2022 is an annualized yield based on the distribution per unit for the six months ended 30 June 2022 over the last trade price for the period.

The net yield per unit for the year ended 31 December 2021 is based on the distribution per unit for the year ended 31 December 2021 over the last trade price for the period.

PORTFOLIO MAP & SUMMARY

物業組合分佈及總覽



置富都會
Fortune Metropolis

Shatin to Central Link
沙田至中環綫

PORTFOLIO SUMMARY 物業總覽

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.

於 2022 年 6 月 30 日，置富產業信託的物業組合由 16 個分佈於香港多個區域的零售商場及物業組成，其中包括約 300 萬平方呎的零售樓面及 2,713 個車位。

	Property	物業	Gross Rentable Area (Sq.ft.) 可出租總面積 (平方呎)	Valuation (HK\$ million) 估值 (百萬港元)	Occupancy 出租率	No. of Car Parking Lots 車位數目
1	Fortune City One	置富第一城	414,469	8,093	98.0%	653
2	+WOO	+WOO嘉湖	665,244	7,790	88.6%	622
3	Ma On Shan Plaza	馬鞍山廣場	310,084	5,713	99.5%	290
4	Metro Town	都會駅	180,822	3,585	99.0%	74
5	Laguna Plaza	麗港城商場	163,203	2,512	98.9%	150
6	Belvedere Square	麗城薈	276,862	2,508	91.0%	329
7	Fortune Metropolis	置富都會	332,168	2,483	83.6%	179
8	Waldorf Avenue	華都大道	80,842	1,768	100.0%	73
9	Caribbean Square	映灣薈	63,018	1,207	99.1%	117
10	Jubilee Square	銀禧薈	170,616	927	95.3%	97
11	Tsing Yi Square	青怡薈	78,836	827	98.5%	27
12	Smartland	荃薈	123,544	799	98.2%	67
13	Centre de Laguna	城中薈	43,000	326	92.0%	N.A
14	Hampton Loft	凱帆薈	74,734	318	100.0%	35
15	Lido Avenue	麗都大道	9,836	211	100.0%	N.A
16	Rhine Avenue	海韻大道	14,604	134	100.0%	N.A
	Total/Overall Average	合計／總平均值	3,001,882	39,201	93.9%	2,713



新界
NEW TERRITORIES

九龍
KOWLOON

香港島
HONG KONG

大嶼山
LANTAU ISLAND

Manager 管理人

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



www.fortunemalls.com.hk
www.fortunereit.com

