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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**

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 17 retail properties, with 16 private housing estate retail properties in Hong Kong and 1 neighborhood mall in Singapore, comprising approximately 3.0 million square feet ("**Sq.ft.**") of retail space and 2,793 car parking spaces. The retail properties are Fortune City One, +WOO, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Laguna Plaza, Belvedere Square, Waldorf Avenue, Caribbean Square, Jubilee Square, Tsing Yi Square, Smartland, Centre de Laguna, Hampton Loft, Lido Avenue, Rhine Avenue and Stars of Kovan Property. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2022 (the “**Reporting Year**” or “**FY2022**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2022	Year ended 31 December 2021	% change
Revenue (HK\$ million)	1,764.4	1,806.4	-2.3%
Net property income (HK\$ million)	1,290.2	1,340.2	-3.7%
Income available for distribution (HK\$ million)	877.3	981.1	-10.6%
Distribution to unitholders (HK\$ million)	877.3	883.0	-0.6%
Distribution per unit (“ DPU ”) (HK cents)	44.15	44.83	-1.5%
Cost-to-revenue ratio	24.6%	23.5%	+1.1%
	As at 31 December 2022	As at 31 December 2021	% change
Property valuation (HK\$ million)	39,503	39,500	-
Net asset value per unit (HK\$)	14.52	14.79	-1.8%
Gearing ratio ^[1]	23.9%	22.4%	+1.5%

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

While Hong Kong’s retail market experienced a detrimental impact from the fifth wave of COVID-19 in early 2022, the situation had stabilised considerably by the end of the year.

Fortune REIT recorded revenue of HK\$1,764.4 million for the year ended 31 December 2022 representing a decrease of 2.3% year-on-year (2021: HK\$1,806.4 million). The decrease was due to the rental concessions offered to tenants to help them ride out the fifth wave of COVID-19, a decrease in the average occupancy of the portfolio as a result of the ongoing asset enhancement initiatives (“**AEIs**”) at +WOO and negative rental reversion. As the local epidemic peaked in early March 2022 and the COVID-related social distancing measures were gradually relaxed, no further rental concessions were required in the second half of 2022. As a result, revenue improved in the second half of 2022, recording an increase of 3.4% over the first half of 2022.

Total property operating expenses (excluding the Manager’s performance fee) increased 2.2% year-on-year to HK\$434.2 million (2021: HK\$424.8 million). This was mainly attributable to an increase in building management expenses resulting from a lower base in 2021. Accordingly, net property income decreased 3.7% year-on-year to HK\$1,290.2 million (2021: HK\$1,340.2 million) and the cost-to-revenue ratio was 24.6% (2021: 23.5%) for the Reporting Year.

Finance costs (excluding change in fair value of derivative financial instruments) grew 25.1% year-on-year to HK\$241.6 million (2021: HK\$193.1 million), mainly attributable to the sharp increase in the Hong Kong Interbank Offered Rate ("**HIBOR**"), particularly in the second half of 2022. As a new loan was drawn down in September 2022 to finance the acquisition of the Stars of Kovan Property, the higher borrowing level also contributed to the increase in finance costs. The effective cost of borrowings for the Reporting Year was 2.7% (2021: 2.2%).

Income available for distribution for the Reporting Year was HK\$877.3 million (2021: HK\$981.1 million), representing a decrease of 10.6% year-on-year. With a 100% distribution payout ratio for the Reporting Year (2021: 90%), the full year DPU was 44.15 HK cents, compared to 44.83 HK cents in 2021. Based on the closing unit price of HK\$6.34 on 30 December 2022, the 2022 full year DPU implied a distribution yield of 7.0%.

The final DPU of 21.10 HK cents for the year ended 31 December 2022 will be paid on 21 April 2023 to Unitholders on the register of Unitholders of Fortune REIT as at 24 March 2023.

Capital Management

As at 31 December 2022, Fortune REIT's total loan facilities drawn amounted to HK\$9,636.7 million (2021: HK\$8,900.0 million), resulting in a gearing ratio of 23.9% (2021: 22.4%). Gross liability as a percentage of its gross assets was 28.1% as at 31 December 2022 (2021: 26.5%).

During the Reporting Year, Fortune REIT secured two new facilities, including (i) a five-year HK\$1,200 million sustainability-linked loan facility and (ii) a HK\$200 million uncommitted revolving loan facility, for the purpose of refinancing and other general corporate use. Besides, a five-year S\$100 million sustainability-linked loan facility was also obtained to finance the acquisition of Stars of Kovan Property.

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitments and working capital requirements. As at 31 December 2022, available liquidity was HK\$447.3 million (2021: HK\$418.0 million), comprising committed but undrawn facilities of HK\$240.4 million (2021: HK\$300.0 million) and bank deposits of HK\$206.9 million (2021: HK\$118.0 million). In addition, HK\$400.0 million (2021: HK\$300.0 million) of uncommitted revolving loan facilities remained undrawn at the end of the Reporting Year.

As at 31 December 2022, the fixed rate debt portion was approximately 62% (2021: approximately 70%) to provide some reasonable protection against interest rate hikes.

Net asset value per unit amounted to HK\$14.52 as at 31 December 2022 (2021: HK\$14.79).

Portfolio Valuation

The acquisition of Stars of Kovan Property in Singapore, Fortune REIT's first overseas expansion, was completed in September 2022. Together with the existing 16 private housing estate retail properties in Hong Kong, Fortune REIT's portfolio has expanded to 17 retail properties. As at 31 December 2022, the Hong Kong portfolio was valued at HK\$38,955 million (2021: HK\$39,500 million), a decrease of 1.4% year-on-year. The average capitalisation rate for the Hong Kong assets remained unchanged at 4.3%. On the other hand, as a new addition to the portfolio, the Singapore asset was appraised at S\$95 million as at 31 December 2022.

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.

PORTFOLIO HIGHLIGHTS

As at 31 December 2022, Fortune REIT owns a geographically diverse portfolio of 16 and 1 retail properties in Hong Kong and Singapore respectively, comprising approximately 3.0 million Sq.ft. of retail space and 2,793 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	8,073	98.0%	653
+WOO	665,244	7,821	89.4%	622
Ma On Shan Plaza	310,084	5,610	99.4%	290
Metro Town	180,822	3,590	93.7%	74
Fortune Metropolis	332,168	2,413	82.3%	179
Laguna Plaza	163,203	2,479	99.1%	150
Belvedere Square	276,862	2,465	92.1%	329
Waldorf Avenue	80,842	1,768	100%	73
Caribbean Square	63,018	1,209	100%	117
Jubilee Square	170,616	925	97.0%	97
Tsing Yi Square	78,836	830	100%	27
Smartland	123,544	778	97.5%	67
Centre de Laguna	43,000	326	96.7%	N.A
Hampton Loft	74,734	323	100%	35
Lido Avenue	9,836	211	100%	N.A
Rhine Avenue	14,604	134	100%	N.A
Stars of Kovan Property	22,638	548	100%	80
Total / Overall average	3,024,520	39,503	93.9%	2,793

BUSINESS REVIEW

At the start of 2022, a fifth wave of the COVID-19 outbreak hit Hong Kong hard, leading to a tightening of all related safety measures to their most stringent level. Towards the end of the first quarter of 2022, as COVID-related measures eased and the pandemic situation improved, the retail market gradually stabilised on the back of an improved labour market and the government's supportive measures, including the Consumption Voucher Scheme (“CVS”). However, the progress was interrupted by the increase in outbound travel by Hong Kong residents in the fourth quarter in response to the lifting of hotel quarantine requirements for travellers since September 2022, which released pent-up outbound travel demand and dampened local consumption. Overall, total retail sales declined by 0.9% year-on-year for 2022. Among which, department stores (-9.9%) and clothing and footwear (-9.1%) remained under pressure, while supermarkets (+1.3%), electrical goods (+2.1%) and medicines and cosmetics (+2.7%) performed better.

Entering 2022 with escalating commercial risks, quick restoration of healthy rent collection rate and maintenance of a steady income stream became our top priority. To this end, we have provided swift support to selected tenants including rental concessions, cash voucher purchases, and other types of tenant relief programmes. As the pandemic situation eased, rent collection rate have quickly rebounded and concluded at 98.6% for the year of 2022. Overall, Fortune Malls achieved a stable asset performance in 2022. As at 31 December 2022, tenant retention remained stable at 78%, while portfolio occupancy recorded a healthy 93.9%, despite continued AEs leading to frictional vacancies. Entering the third year of the downward rental cycle, the narrowing trend of negative rental reversion generally continued throughout 2022. While business performance has been mostly mixed across sectors, certain individual sectors began to see more cases of flat or positive rental reversion, albeit at a modest rate.

With the easing of social distancing measures in the second half of 2022, we stepped up our marketing efforts and launched a series of targeted campaigns including free parking, gift redemption and tenant cash coupons to capture the spending power supported by the CVS. In addition, to celebrate the second anniversary of the Fortune Malls APP in 2022, we launched the Fortune Malls e-Voucher on the APP, allowing customers to redeem their Fortune Point+ for cash e-Vouchers to spend at our malls, which generated more business for our tenants. As we continue to expand our digital offerings, the Fortune Malls APP will serve as an integrated e-platform to improve productivity and efficiency, sharpen our competitive edge, and enhance the customer experience.

First Foray into Overseas Acquisition

On 30 September 2022, Fortune REIT completed the acquisition of the Stars of Kovan Property in Singapore for a consideration of S\$88 million (approximately HK\$505 million). This marked Fortune REIT's first foray into the overseas market as it seeks to diversify and improve income stability. With a gross rentable area of 22,638 square feet, the Stars of Kovan Property consists of 36 shop units and 80 car parking spaces. The Stars of Kovan Property has an essentials-based trade mix with a 100% occupancy rate, making it a strategic fit with our existing portfolio of 16 neighbourhood retail assets in Hong Kong.

APM Property Management Pte Ltd (“APM”), a reputable and experienced property management company with a proven track record in Singapore, including the iconic Suntec City, has been appointed to handle the day-to-day operation, property management, lease management and marketing services for Stars of Kovan Property. With the support from APM, we hope to capitalise on lease expiry opportunities amid an upward trend in the Singapore retail market to enhance the rental returns of the Property.

Spearhead AElS to Drive Organic Growth

Located at the heart of Tin Shui Wai, +WOO offers the district's largest supermarket, the only cinema and a wide range of daily convenience services, making it the preferred shopping mall in the area. To reinforce +WOO's leadership position and capture new demand from the expanding population fueled by the government's Northern Metropolis development plan, the Manager has embarked on a major AElS at +WOO Phase 2 with a capital expenditure of HK\$300 million. The three-stage project commenced in July 2021 and made good progress in 2022.

Stage one of the project began with the zone covering up to 44% of the area within +WOO Phase 2, starting from the mall entrance near the Ginza Light Rail Station. The first stage of the refurbishment was completed in July 2022, with a bright, modern mall entrance and a welcoming atrium layout that provides visitors with a new sense of arrival. Several escalators have been realigned to facilitate smoother flow of traffic from the ground floor to the first and second floors, while a kids' play area, the +WOO Playground, has been introduced on the second floor, successfully turning an unused outdoor space into a new attraction. The playground draws additional traffic to the second floor and largely energizes the previously quieter adjacent area. The refurbishment has already attracted new tenants to +WOO from a wide range of sectors, including food and beverage, sports and wellness, and leisure and entertainment. The project is expected to make further progress in 2023 with an overall completion in the first half of 2024.

Shaping a Greener Tomorrow

Sustainability is an integral part of our business DNA. We define and implement ESG initiatives that consider all aspects of our business in our five key focus areas – Our People, Our Footprint, Our Community, Our Space and Our Conduct. These values enable us to make steady progress in meeting high standards and practices, which in turn have a positive impact on the performance of our business and the communities in which we operate. Our unwavering focus on sustainability plays a pivotal role in our overall strategy.

Fortune REIT has made significant ESG progress on multiple fronts during the Reporting Year:

- **Green financing** – We secured new sustainability-linked loans totalling HK\$1,777.1 million in 2022, reinforcing our ongoing commitment to integrating sustainability into our operations. With nearly 45% of our loans considered sustainability-linked, the high proportion of green financing incentivizes us to make business decisions that take environmental considerations into account, as the interest cost savings translate into tangible benefits to the bottom line.
- **Green building** - All assets in the Hong Kong portfolio are green certified by Building Environmental Assessment Method Plus (“**BEAM Plus**”) in terms of their management. To go beyond a single aspect, Fortune Metropolis was selected as a pilot site to benchmark against in the Comprehensive Scheme and awarded the highest BEAM Plus Platinum rating. The Comprehensive Scheme measures the combined performance of a building across multiple aspects, including property management, waste, water use, energy use, indoor air quality, etc.
- **Green operation** - A smart building management system (“**BMS**”) has been installed in six malls, and will be extending to a total of nine malls covering up to 85% of the GRA in our portfolio by end of 2023. Switching to a smart BMS provides us with all of the building data in real time and enables us to optimise energy efficiency and regulate air quality in an effective manner. Building innovation will be a critical tool in our efforts to decarbonise and move towards Net Zero.

- **Green retrofitting** - Early adopters of retrofitting will benefit from resilient and future-proof assets with better prospects of attracting and retaining green-minded tenants. As Fortune REIT's largest-ever AEIs project, the refurbishment at +WOO has taken a holistic approach to achieving decarbonisation from the planning stage. For example, six electrical vehicle chargers were added in the car park and 220 square meters of solar panels are being installed on the roof of the mall atrium. On the customer front, we have expanded and upgraded the disabled and child-friendly facilities; contactless devices and technologies are being applied amid a more health-cautious environment, while interactive digital walls and toilets with smart sensors will provide an engaging experience for visitors.

OUTLOOK

The stringent social distancing measures and quarantine requirements to curb the spread of COVID-19 have taken a heavy toll on Hong Kong's economy since 2020. After three years of severe business disruption, Hong Kong finally sees a roadmap for reconnecting with the Mainland and the world. From mid-December 2022, most travel restrictions for overseas visitors were lifted, and the border with China reopened on 8 January 2023. Easier and quarantine-free travel for inbound visitors will provide the impetus for economic growth in 2023. In the pre-COVID era, tourists accounted for around a third of Hong Kong's retail sales, and their return should pave the way for a broad-based recovery in the retail market. The latest Hong Kong Budget announced that the CVS will continue in 2023 with the first HK\$3,000 to be disbursed in April 2023 and the remaining HK\$2,000 in middle of the year. The CVS, similar to its previous two rounds of disbursement in 2021 and 2022, will benefit over six million eligible Hong Kong residents and boost local consumption.

On the other hand, lingering concerns about inflation, interest rates hikes, slowing economic growth and unpredictable geopolitics continue to cloud the global macro-outlook. Widespread price increases, particularly for energy and labour will add pressure on Fortune REIT's operating costs in 2023. Energy conservation and optimising energy efficiency will be a priority in our daily operation to mitigate the impact of higher utilities costs. The timely installation of BMS in Fortune Malls, which has already covered more than half of our portfolio GRA, provides us with a reliable tool in this regard. In addition, our continued investment in building automation is expected to rationalise costs and thus improve overall operational efficiency.

Fortune REIT's resilience has always been underpinned by its prudent capital management. With a healthy gearing of 23.9% and an interest coverage ratio of 4.8 times, Fortune REIT's financial position remains solid. As 62% of Fortune REIT's debt are hedged to fixed rates, it will continue to provide Fortune REIT with some reasonable protection against anticipated interest rate hikes.

Despite the aforementioned challenges, we note some bright prospects on the revenue side as we strive to reverse the three-year downward trend in 2023. With leases of up to one-third of our portfolio space due to expire in 2023, we are hopeful of capturing some rental upside as the economy recovers. +WOO is expected to make a positive contribution to our top line as its AEIs progress further in 2023, while the Stars of Kovan Property will also contribute a full year of revenue. As a leading operator of neighbourhood malls with a primary focus on a non-discretionary trade mix, Fortune REIT is well positioned to benefit from the eventual recovery of the retail market. The Manager will continue to strengthen Fortune REIT's core competencies by building portfolio resilience and active portfolio management, thereby delivering long-term value 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 31 December 2022, the total number of issued units of Fortune REIT was 1,987,625,212. As compared with the position as at 31 December 2021, a total of 17,581,632 new units were issued during the Reporting Year in the following manner:

- On 4 January 2022, 3,760,827 new units were issued to the Manager at a price of HK\$7.942 per unit (being ascribed in the Trust Deed) as payment in full for 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 a price of HK\$7.052 per unit (being ascribed in the Trust Deed) as payment in full for 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.
- On 8 July 2022, 4,530,315 new units were issued to the Manager at a price of HK\$6.472 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$29.3 million payable by Fortune REIT for the period from 1 April 2022 to 30 June 2022.
- On 7 October 2022, 5,147,102 new units were issued to the Manager at a price of HK\$5.83 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$30.0 million payable by Fortune REIT for the period from 1 July 2022 to 30 September 2022.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 3,600,000 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 mandatory disclosure requirements and code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 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 Year.

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the final distribution, the record date will be on Friday, 24 March 2023. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 March 2023. The payment of final distribution will be made to unitholders on Friday, 21 April 2023.

REVIEW OF FINAL RESULTS

The final results of Fortune REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager, and approved by the Board on 2 March 2023.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 31 December 2022.

ISSUANCE OF ANNUAL REPORT 2022

The 2022 Annual Report of Fortune REIT for the Reporting Year will be dispatched to unitholders and published on the websites of SEHK and Fortune REIT on or before 30 April 2023.

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, 2 March 2023

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	5	1,764,355	1,806,397
Property operating expenses	6	<u>(434,240)</u>	<u>(424,770)</u>
Net property income before manager's performance fee		1,330,115	1,381,627
Manager's performance fee		<u>(39,904)</u>	<u>(41,450)</u>
Net property income		1,290,211	1,340,177
Manager's base fee		(118,418)	(117,193)
Interest income		32	55
Trust expenses	7	(5,910)	(14,100)
Change in fair value of investment properties	12	(696,068)	357,971
Finance costs	8	<u>307,358</u>	<u>(45,766)</u>
Profit before taxation and transactions with unitholders	9	777,205	1,521,144
Income tax expense	10	<u>(274,569)</u>	<u>(203,630)</u>
Profit for the year, before transactions with unitholders		502,636	1,317,514
Distributions to unitholders		<u>(877,261)</u>	<u>(883,031)</u>
(Loss)/profit for the year, after transactions with unitholders		(374,625)	434,483
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange difference arising on translation of foreign operation		<u>330</u>	<u>-</u>
Net comprehensive (expense)/income for the year		<u>(374,295)</u>	<u>434,483</u>
Basic earnings per unit (HK cents)	11	<u>25.34</u>	<u>66.98</u>

Distribution Statement

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Profit for the year, before transactions with unitholders		502,636	1,317,514
Adjustments:			
Manager's base fee		118,418	117,193
Change in fair value of investment properties		696,068	(357,971)
Change in fair value of derivative financial instruments		(548,992)	(147,366)
Non-cash finance costs		(12,129)	20,084
Deferred tax		121,260	31,691
Income available for distribution	(i)	877,261	981,145
Distribution to unitholders			
Interim distribution		456,911	490,847
Final distribution		420,350	392,184
		877,261	883,031
Payout ratio	(ii)	100%	90%
Distribution per unit (HK cents)			
Interim distribution per unit	(iii)	23.05	24.96
Final distribution per unit	(iv)	21.10	19.87
		44.15	44.83

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\$877.3 million for the year ended 31 December 2022 (2021: HK\$883.0 million), representing a payout ratio of 100% (2021: 90%) of Fortune REIT's income available for distribution of HK\$877.3 million for the year ended 31 December 2022 (2021: HK\$981.1 million).
- (iii) The distribution per unit of 23.05 HK cents for the six months ended 30 June 2022 (six months ended 30 June 2021: 24.96 HK cents) was calculated based on the interim distribution to unitholders amount of HK\$456.9 million (six months ended 30 June 2021: HK\$490.8 million) over 1,982,478,110 units (30 June 2021: 1,966,220,930 units), represented issued units as at 30 June 2022 of 1,977,947,795 units (30 June 2021: 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 2022 of 4,530,315 units (second quarter of 2021: 3,456,298 units). Interim distribution was paid on 16 September 2022 (2021 interim distribution: 17 September 2021).

- (iv) The distribution per unit of 21.10 HK cents for the six months ended 31 December 2022 (six months ended 31 December 2021: 19.87 HK cents) is calculated based on the final distribution to unitholders amount of HK\$420.4 million (six months ended 31 December 2021: HK\$392.2 million) over 1,992,461,832 units (31 December 2021: 1,973,804,407 units), representing issued units as at 31 December 2022 of 1,987,625,212 units (31 December 2021: 1,970,043,580 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the fourth quarter of 2022 of 4,836,620 units (fourth quarter of 2021: 3,760,827 units). Final distribution will be paid on 21 April 2023 (2021 final distribution: 22 April 2022).

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	39,503,270	39,500,000
Derivative financial instruments		509,503	21,012
Total non-current assets		40,012,773	39,521,012
Current assets			
Trade and other receivables	13	115,546	76,782
Taxation recoverable		-	8,955
Bank balances		206,864	117,962
Total current assets		322,410	203,699
Total assets		40,335,183	39,724,711
Non-current liabilities			
Derivative financial instruments		-	60,501
Borrowings	14	7,480,197	7,240,917
Deferred tax liabilities		683,721	562,461
Total non-current liabilities		8,163,918	7,863,879
Current liabilities			
Trade and other payables	15	706,944	685,870
Borrowings	14	2,097,565	1,599,600
Distribution payable		420,350	392,184
Provision for taxation		19,105	-
Total current liabilities		3,243,964	2,677,654
Total liabilities, excluding net assets attributable to unitholders		11,407,882	10,541,533
Net assets attributable to unitholders		28,927,301	29,183,178
Units in issue and to be issued ('000)	16	1,992,462	1,973,804
Net asset value per unit attributable to unitholders (HK\$)	17	14.52	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 REIT Code and the Trust Deed made between ARA Asset Management (Fortune) Limited (the “**Manager**”) and HSBC Institutional Trust Services (Asia) Limited (the “**Trustee**”).

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

(2) Basis of preparation

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Fortune REIT.

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

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

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

(3) Principal Accounting Policies

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the consolidated financial statements for the year ended 31 December 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 year, the Group has applied the following amendments to IFRSs issued by International Accounting Standards Board (“**IASB**”) for the first time, which are pertinent to the Group and is mandatorily effective for annual period beginning on or after 1 January 2022 for the preparation of the Group’s consolidated financial statements.

Amendments to IFRSs

Annual Improvements to IFRSs 2018-2020

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

Amendments to IFRSs in issue but not yet effective

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

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current liabilities with Covenants ²

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

² Effective for annual periods beginning on or after 1 January 2024.

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

(4) Segmental reporting

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

The Group owns 16 (2021: 16) and 1 (2021: nil) properties as at 31 December 2022 which are located in Hong Kong and Singapore respectively. 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.

For the year ended 31 December 2022, revenue of HK\$1,759.2 million (2021: HK\$1,806.4 million) is attributable to tenants from the Hong Kong investment properties and HK\$5.2 million (2021: nil) is attributable to tenants from the Singapore investment property. As at 31 December 2022, investment properties of HK\$38,955.0 million (2021: HK\$39,500 million) are located in Hong Kong and HK\$548.3 million (2021: nil) in Singapore.

(5) Revenue

	2022 HK\$'000	2021 HK\$'000
Revenue arising from operating leases:		
Fixed	1,405,644	1,443,102
Variable	8,273	6,461
Charge-out collections	231,953	239,269
Car park revenue	116,420	115,765
Other income	2,065	1,800
	<u>1,764,355</u>	<u>1,806,397</u>

(6) Property operating expenses

	2022 HK\$'000	2021 HK\$'000
Advertising and promotion	21,229	22,488
Building management expenses	222,845	213,305
Car park operating expenses	31,215	32,413
Government rents and rates	13,862	13,406
Leasing commission and marketing services fee	31,358	28,436
Legal and other professional fees	6,902	6,723
Property management fee	42,428	43,540
Utilities	44,795	46,652
Others	19,606	17,807
	<u>434,240</u>	<u>424,770</u>

(7) Trust expenses

	2022 HK\$'000	2021 HK\$'000
Trustee's fee	5,306	11,698
Other charges	604	2,402
	<u>5,910</u>	<u>14,100</u>

(8) Finance costs

	2022 HK\$'000	2021 HK\$'000
Interest expenses on bank borrowings	221,501	107,214
Amortisation of front-end fees	18,283	19,145
Commitment fee	852	1,770
Interest rate swaps expenses realised	998	65,003
	<u>241,634</u>	<u>193,132</u>
Change in fair value of derivative financial instruments	<u>(548,992)</u>	<u>(147,366)</u>
	<u>(307,358)</u>	<u>45,766</u>

(9) Profit before taxation and transactions with unitholders

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

	2022 HK\$'000	2021 HK\$'000
Fees to external auditor		
- Audit services	1,670	1,580
- Non-audit services	1,492	1,262
Fees to internal auditor	450	350
Allowance for credit losses	319	631
Valuation fees (paid to principal valuer)	520	520
	<u>520</u>	<u>520</u>

(10) Income tax expense

	2022 HK\$'000	2021 HK\$'000
Current tax:		
- Hong Kong	154,034	171,918
- (Over)/under provision in prior years	(725)	21
	<u>153,309</u>	<u>171,939</u>
Deferred taxation:		
- Current year	121,260	31,951
- Over provision in prior years	-	(260)
	<u>121,260</u>	<u>31,691</u>
	<u>274,569</u>	<u>203,630</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2021: 16.5%) for the year ended 31 December 2022. Fortune REIT's subsidiary in Singapore is subject to Singapore income tax at 17% (2021: nil) for the year ended 31 December 2022.

Deferred tax is provided on temporary differences using the current applicable rates.

(11) Earnings per unit

Basic earnings per unit is calculated by dividing the earnings for the year, before transactions with unitholders of HK\$502.6 million (2021: HK\$1,317.5 million) by the weighted average of 1,983,619,377 (2021: 1,967,000,899) units outstanding during the year.

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

(12) Investment properties

	2022 HK\$'000	2021 HK\$'000
Fair Value		
At beginning of year	39,500,000	39,075,000
During the year:		
Capital expenditure incurred in upgrading investment properties	168,000	67,029
Change in fair value of investment properties	(696,068)	357,971
Acquisition	504,962	-
Exchange adjustments	26,376	-
At end of year	<u>39,503,270</u>	<u>39,500,000</u>

(13) Trade and other receivables

	2022 HK\$'000	2021 HK\$'000
Trade receivables	65,601	52,380
Less: allowance for credit losses	(5,219)	(6,627)
	<u>60,382</u>	<u>45,753</u>
Other receivables and prepayments		
Security deposits	25,670	25,672
Interest receivable	20,357	-
Other receivables	1,034	1,076
Prepayments	8,103	4,281
	<u>55,164</u>	<u>31,029</u>
	<u>115,546</u>	<u>76,782</u>

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

	2022 HK\$'000	2021 HK\$'000
0 - 30 days	51,760	45,030
31 - 90 days	3,967	723
Over 90 days	4,655	-
	<u>60,382</u>	<u>45,753</u>

(14) Borrowings

	2022 HK\$'000	2021 HK\$'000
Unsecured term loans	7,200,000	7,200,000
Unsecured revolving loans	2,436,727	1,700,000
	<u>9,636,727</u>	<u>8,900,000</u>
Less: unamortised front-end fees	(58,965)	(59,483)
	<u>9,577,762</u>	<u>8,840,517</u>

Carrying amount repayable:		
Within one year	2,097,565	1,599,600
More than one year, but not more than two years	-	1,494,564
More than two years, but not more than five years	7,480,197	5,746,353
	<u>9,577,762</u>	<u>8,840,517</u>
Less: Amount due within one year shown under current liabilities	<u>(2,097,565)</u>	<u>(1,599,600)</u>
	<u>7,480,197</u>	<u>7,240,917</u>

(15) Trade and other payables

	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
Tenants' deposits	474,150	458,400
Rental received in advance	42,973	36,025
	<u>517,123</u>	<u>494,425</u>
Other payables		
Trustee's fee	616	1,006
Manager's performance fee	6,835	3,465
Operating expenses	176,690	170,359
Interest payable	266	10,321
Others	5,414	6,294
	<u>189,821</u>	<u>191,445</u>
	<u>706,944</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 Reporting Year based on lease term amounted to HK\$277.0 million (2021: HK\$275.2 million) as at 31 December 2022.

(16) Units in issue and to be issued

	<i>Number of units</i>	<i>HK\$'000</i>
	<i>'000</i>	
Balance as at 1 January 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	<u>1,970,043</u>	<u>8,450,769</u>
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2021	3,761	29,869
Balance as at 31 December 2021	<u>1,973,804</u>	<u>8,480,638</u>

Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2022	13,821	88,547
Balance in issue as at 31 December 2022	<u>1,987,625</u>	<u>8,569,185</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2022	4,837	29,871
Balance as at 31 December 2022	<u><u>1,992,462</u></u>	<u><u>8,599,056</u></u>

(17) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$28,927.3 million (2021: HK\$29,183.2 million) and the total number of 1,992,461,832 (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.

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

As at 31 December 2022, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$2,921.6 million (2021: HK\$2,474.0 million).

As at 31 December 2022, the Group's total assets less current liabilities amounted to HK\$37,091.2 million (2021: HK\$37,047.1 million).