

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



Fortune Real Estate Investment Trust

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

(Stock Code: 778)

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024 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, Belvedere Square, Laguna Plaza, Fortune Metropolis, Waldorf Avenue, Caribbean Square, Jubilee Square, Tsing Yi Square, Smartland, Hampton Loft, Centre de Laguna, 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 ESR Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2024 (the “**Reporting Period**”) as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2024	Six months ended 30 June 2023	% change
Revenue (HK\$ million)	871.8	908.7	-4.1%
Net property income (HK\$ million)	633.1	671.9	-5.8%
Income available for distribution (HK\$ million)	369.5	447.7	-17.5%
Distribution to unitholders (HK\$ million)	369.5	447.7	-17.5%
Distribution per unit (“ DPU ”) (HK cents)	18.23	22.36	-18.5%
Cost-to-revenue ratio	25.1%	23.8%	+1.3%
	As at 30 June 2024	As at 31 December 2023	% change
Property valuation (HK\$ million)	38,715	38,997	-0.7%
Net asset value per unit (HK\$)	13.67	13.94	-1.9%
Gearing ratio ^[1]	24.8%	24.6%	+0.2%

Note:

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

DISTRIBUTION

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

FINANCIAL REVIEW

In the first half of 2024, Hong Kong’s retail market faced significant challenges due to the slow recovery of tourist arrivals and the changing consumption patterns of both local customers and tourists.

Against these headwinds, Fortune REIT reported a gross revenue of HK\$871.8 million, a decrease of 4.1% compared to the same period last year (first half of 2023: HK\$908.7 million). The decline was driven by negative rental reversions for renewals, mainly from real estate agencies and supermarkets.

Total property operating expenses (excluding the Manager’s performance fee) increased by 1.4% year-on-year to HK\$219.1 million (first half of 2023: HK\$216.0 million). In particular, building management expenses were higher due to increased staff costs and more expensive service contracts. Besides, a higher leasing commission was incurred as we committed more new lettings at +WOO. Nevertheless, we managed to achieve some savings from utilities cost, thanks to a lower fuel charge on electricity. Accordingly, net property income for the Reporting Period decreased by 5.8% year-on-year to HK\$633.1 million (first half of 2023: HK\$671.9 million) and the cost-to-revenue ratio was 25.1% (first half of 2023: 23.8%).

Finance cost (excluding changes in fair value of derivative financial instruments) rose by 30.2% year-on-year to HK\$198.1 million (first half of 2023: HK\$152.2 million), mainly due to the sharp increase in HIBOR in the second half of 2023. We have proactively managed our interest rate risk by hedging more than half of our loans to fixed rate, resulting in an effective borrowing cost of 4.1% for the Reporting Period (first half of 2023: 3.2%).

Income available for distribution for the Reporting Period amounted to HK\$369.5 million (first half of 2023: HK\$447.7 million). The Manager elected to receive 20% cash and 80% units for the payment of base fee from the current financial year onwards. This seeks to address investors' concern of losing value over time from the issuance of new units at big discounts, but led to lower cash distribution. With a distribution payout ratio of 100% for the Reporting Period (first half of 2023: 100%), the interim DPU was 18.23 HK cents (first half of 2023: 22.36 HK cents), representing a 18.5% decline year-on-year. Based on the closing unit price of HK\$3.76 as at 28 June 2024, the interim DPU implied an annualized distribution yield of 9.7%.

The interim DPU of 18.23 HK cents for the six months ended 30 June 2024 will be paid on 17 September 2024 to Unitholders whose names appear on the register of Unitholders of Fortune REIT as at 23 August 2024.

Capital Management

Fortune REIT's balance sheet remained sound and robust. As at 30 June 2024, the gearing ratio remained steady at 24.8% (31 December 2023: 24.6%), while gross liability as a percentage of gross assets was 29.3% (31 December 2023: 28.9%). During the Reporting Period, new interest rate swap contracts have been entered to maintain the hedging proportion at an appropriate level. As at 30 June 2024, approximately 55% of total debt has been hedged to fixed rates.

Fortune REIT possesses sufficient financial resources to meet its financial commitments and working capital requirements. As at 30 June 2024, total loan facilities drawn down amounted to HK\$9,730.2 million (31 December 2023: HK\$9,715.9 million). Available liquidity amounted to HK\$781.0 million (31 December 2023: HK\$858.4 million), comprising committed but undrawn facilities of HK\$686.5 million (31 December 2023: HK\$751.7 million) and bank deposits of HK\$94.5 million (31 December 2023: HK\$106.7 million). In addition, as at 30 June 2024, uncommitted revolving loan facilities of HK\$60.0 million remained undrawn.

Net asset value per unit amounted to HK\$13.67 as at 30 June 2024 (31 December 2023: HK\$13.94).

Portfolio Valuation

As at 30 June 2024, the total value of Fortune REIT's investment properties remained steady at HK\$38,715 million (31 December 2023: HK\$38,997 million). The average capitalization rate of the Hong Kong assets remained unchanged at 4.3%.

Colliers International (Hong Kong) Limited, the principal valuer, has adopted the income capitalization approach to the valuation methodology, which is cross-referenced with a direct comparison approach.

PORTFOLIO HIGHLIGHTS

As at 30 June 2024, Fortune REIT currently holds a portfolio of 16 private housing estate retail properties in Hong Kong and 1 neighbourhood mall in Singapore, comprising of 3.0 million sq.ft. of retail space and 2,793 car parking spaces.

Property	Gross Rentable Area ("GRA") (Sq.ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Hong Kong Portfolio				
Fortune City One	414,469	7,912	97.1%	653
+WOO	665,244	7,660	93.4%	622
Ma On Shan Plaza	310,084	5,545	98.4%	290
Metro Town	180,822	3,514	100%	74
Belvedere Square	276,862	2,387	96.4%	329
Laguna Plaza	163,203	2,371	97.9%	150
Fortune Metropolis	332,168	2,366	87.1%	179
Waldorf Avenue	80,842	1,729	98.7%	73
Caribbean Square	63,018	1,181	100%	117
Jubilee Square	170,616	940	97.8%	97
Tsing Yi Square	78,836	807	90.6%	27
Smartland	123,544	787	79.7%	67
Hampton Loft	74,734	326	100%	35
Centre de Laguna	43,000	306	94.2%	N.A
Lido Avenue	9,836	206	100%	N.A
Rhine Avenue	14,604	130	100%	N.A
Singapore Portfolio				
Stars of Kovan Property	22,638	548	100%	80
Total / Overall average	3,024,520	38,715	94.8%	2,793

BUSINESS REVIEW

The retail market in Hong Kong faces a slow recovery amid structural changes. Total retail sales value for the first six months of 2024 saw a 6.6% decline from the previous year and were still 22.7% below the 2018-level. Tourist arrivals during the first half of 2024 grew 64% from last year but remained 31% down compared to the 2018-level. The strong Hong Kong dollar has eroded tourists' purchasing power, affecting their consumption habits and leading to lower sales of discretionary goods, particularly luxury items. On the other hand, the growing trend of residents travelling abroad, especially during holidays and long weekends, has caused retail spending leakage to the neighbouring cities and regions such as Shenzhen and Japan.

As a neighbourhood shopping mall operator, we have leveraged on our strengths to maintain our competitiveness and performance against these market headwinds. During the Reporting Period, we signed leases for a total of 424,000 sq.ft., which accounted for 14% of total portfolio area. We also retained 83% of our tenants, indicating a stable leasing demand in Fortune Malls. As at 30 June 2024, the occupancy rate increased to 94.8% (31 December 2023: 94.4%).

Rental performance of Fortune Malls varied across different business sectors, reflecting the changing market conditions and consumer preferences. Rental reversion was negative for the portfolio during the Reporting Period, as the rent reductions for trades such as real estate agencies and supermarkets dragged on the overall performance. Real estate agencies have experienced some significant rent reductions in the past 18 months, with most of their leases gradually adjusted to market levels. In addition, kindergartens saw a drop in demand due to declining birth rates, while supermarkets faced fierce competitions from nearby cities and online channels. Nevertheless, most other sectors, including fast food, tutorial centres, services and wet market, showed resilience and registered some mild increase in rents upon renewal. As we continue to monitor market trends and customer needs, we will proactively seek repositioning and reconfiguration opportunities to optimize our tenant mix.

Trade Mix Enhancement and Customer-Centric Approach to Drive Sustained Mall Appeal

One of our strategic focuses is to maintain a diverse and compelling culinary lineup at Fortune Malls, as the food and beverage segment remains a strong appeal and a key driver of traffic. During the first half of 2024, Fortune Malls welcomed the entry of several popular restaurants, including the Michelin-recommended Mammy Pancake (媽咪雞蛋仔), Bai Fung Bento (百芳池上便當) specializing in authentic Taiwanese Bentos, Mizi (米籽) featuring traditional Yunnan noodles and dishes, and the renowned Japanese yakiniku restaurant Gyu-Kaku (牛角).

Fortune Malls always seek to delight our customers with attractive promotional campaigns. During the Reporting Period, we launched festival campaigns for Chinese New Year and Easter, featuring adorable characters such as Duckyo and Hamster SUKEROKU for photo opportunities. We also collaborated with our education tenants to organize Family Carnival (全家啟動樂), a campaign tailored to attract kids and parents during weekends. In addition, we offered free parking promotions and spending rewards such as lucky draws and gift redemptions to boost customer loyalty and satisfaction.

Our customer-centric approach and trade mix enhancement have helped us maintain a loyal customer base at Fortune Malls. Despite the disruptions from increased outbound travels, our footfall and hourly carpark income for the first half of 2024 only registered a slight decline of 1.4% and 2.2% respectively, against the second half of 2023. We saw relative stable performance on weekdays, reflecting our resilience and appeal in the market. We will continue to launch attractive promotional campaigns and introduce popular culinary brands to drive traffic and spending at our malls.

Revitalized +WOO Boosts Occupancy with Enhanced Tenant Mix

The HK\$300 million asset enhancement initiatives for +WOO Phase 2 were essentially completed in July 2024. +WOO is now revitalized with a fresh, appealing brand image and enhanced facilities, thereby attracting new tenants from diverse sectors. During the Reporting Period, we secured over 22,500 sq.ft of leases for the renovated area, pushing the overall occupancy rate of +WOO to 93.4% as at 30 June 2024. The tenant mix now features a heightened focus on lifestyle and entertainment, highlighted by the addition of a gym alongside the existing cinema and playhouses. The food and beverage offerings have also expanded, with the addition of several popular dining spots occupying a larger area. Meanwhile, we have scaled back on sectors such as real estate agencies and are exploring new possibilities for a currently vacant kindergarten space. Despite the challenge of increased northbound consumption, we are confident that our proactive enhancements will enrich the vibrancy of +WOO, solidifying its position as the leading shopping destination in Tin Shui Wai. As we continue to lease out the remaining space of the renovated area, the overall occupancy of +WOO will see a further increase in the latter half of 2024.

OUTLOOK

The challenges and uncertainties facing the Hong Kong retail market in the short-term, the increasing competition from neighbouring mainland cities and other regions, and the rapid growth of online shopping, require us to constantly innovate and adapt to the changing market dynamics.

The government has introduced various supportive measures to boost retail demand, including the expansion of the Individual Visit Scheme to cover ten more mainland cities, the increase of the duty-free quotas for Mainland visitors per trip from RMB5,000 to RMB12,000, and the launch of several talent admission schemes to attract global talents. These initiatives will help enhance Hong Kong's attractiveness as a tourist destination and a regional hub for business and innovation, thereby stimulating businesses in the retail sector. Looking ahead, we will continue to sustain the competitive edge of our portfolio via strategic repositioning and AElS, ensuring that we are primed to capture any opportunities that arise within the rapidly evolving retail landscape.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2024, the total number of issued units of Fortune REIT was 2,021,226,559. A total of 12,573,800 new units were issued during the Reporting Period in the following manner:

- On 5 January 2024, 6,016,803 new units were issued to the Manager at the price of HK\$4.901 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$29.5 million payable by Fortune REIT for the period from 1 October 2023 to 31 December 2023.
- On 22 April 2024, 6,556,997 new units were issued to the Manager at the price of HK\$3.558 per unit (being ascribed in the Trust Deed) as payment of 80% of the Manager's base fee of approximately HK\$23.3 million payable by Fortune REIT for the period from 1 January 2024 to 31 March 2024.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, 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 as set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix C1 to the Rules Governing the Listing of Securities on the SEHK.

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

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the interim distribution, the record date will be on Friday, 23 August 2024. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 23 August 2024. The payment of interim distribution will be made to unitholders on Tuesday, 17 September 2024.

REVIEW OF INTERIM RESULTS

The unaudited interim results of Fortune REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager, and approved by the board of directors of the Manager on 6 August 2024. The unaudited interim results have also been reviewed by Fortune REIT’s auditors in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2024.

ISSUANCE OF 2024 INTERIM REPORT

The 2024 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders (if requested) and published on the websites of SEHK and Fortune REIT on or before 30 September 2024.

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

Hong Kong, 6 August 2024

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2024

	Notes	Six months ended 30 June	
		2024	2023
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	5	871,778	908,688
Property operating expenses	6	<u>(219,106)</u>	<u>(215,999)</u>
Net property income before manager's performance fee		652,672	692,689
Manager's performance fee		<u>(19,583)</u>	<u>(20,784)</u>
Net property income		633,089	671,905
Manager's base fee		(58,119)	(58,802)
Interest income		79	95
Trust expenses		(3,755)	(4,126)
Change in fair value of investment properties	11	(322,872)	(34,698)
Finance costs	7	<u>(210,359)</u>	<u>(207,453)</u>
Profit before taxation and transactions with unitholders	8	38,063	366,921
Income tax expense	9	<u>(74,457)</u>	<u>(87,788)</u>
(Loss)/profit for the period, before transactions with unitholders		(36,394)	279,133
Distributions to unitholders		<u>(369,516)</u>	<u>(447,658)</u>
Loss for the period, after transactions with unitholders		(405,910)	(168,525)
Other comprehensive expense			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange difference arising on translation of a foreign operation		<u>(45)</u>	<u>(58)</u>
Net comprehensive expenses for the period		<u>(405,955)</u>	<u>(168,583)</u>
Basic (loss)/earnings per unit (HK cents)	10	<u>(1.80)</u>	<u>13.97</u>

Distribution Statement

For the six months ended 30 June 2024

	Notes	Six months ended 30 June	
		2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
(Loss)/profit for the period, before transactions with unitholders		(36,394)	279,133
Adjustments:			
Manager's base fee		46,495	58,802
Change in fair value of investment properties		322,872	34,698
Change in fair value of derivative financial instruments		12,211	55,216
Non-cash finance costs		14,180	11,476
Deferred tax		10,152	8,333
Income available for distribution	(i)	369,516	447,658
Percentage of distributable to unitholders		100%	100%
Distribution to unitholders	(ii)	369,516	447,658
Distribution per unit (HK cents)	(iii)	18.23	22.36

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 accordance with the Trust Deed.
- (ii) Distribution amount to unitholders of HK\$369.5 million for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$447.7 million), representing a payout ratio of 100% (six months ended 30 June 2023:100%) of Fortune REIT's income available for distribution of HK\$369.5 million for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$447.7 million).
- (iii) The distribution per unit of 18.23 HK cents for the six months ended 30 June 2024 is calculated based on the interim distribution to unitholders amount of HK\$369.5 million over 2,027,306,693 units, representing issued units as at 30 June 2024 of 2,021,226,559 units plus the number of units issued after the distribution period to the Manager as payment of 80% of the Manager's base fee for its services in the second quarter of 2024 of 6,080,134 units. 2024 interim distribution will be paid on 17 September 2024.

The distribution per unit of 22.36 HK cents for the six months ended 30 June 2023 was calculated based on the interim distribution to unitholders amount of HK\$447.7 million over 2,002,210,502 units, represented issued units as at 30 June 2023 of 1,996,969,182 units plus the number of units issued after the distribution period to the Manager as payment in full of the Manager's base fee for its services in the second quarter of 2023 of 5,241,320 units. 2023 interim distribution was paid on 22 September 2023.

Condensed Consolidated Statement of Financial Position

As at 30 June 2024

	Notes	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	38,714,920	38,997,280
Derivative financial instruments		277,625	307,884
Total non-current assets		38,992,545	39,305,164
Current assets			
Derivative financial instruments		23,632	4,610
Trade and other receivables	12	90,325	93,806
Cash and cash equivalents		94,549	106,718
Total current assets		208,506	205,134
Total assets		39,201,051	39,510,298
Non-current liabilities			
Derivative financial instruments		974	-
Borrowings	13	9,002,631	8,998,374
Deferred tax liabilities		697,440	687,288
Total non-current liabilities		9,701,045	9,685,662
Current liabilities			
Trade and other payables	14	679,014	697,938
Borrowings	13	680,000	660,000
Distribution payable		369,516	362,960
Provision for taxation		50,836	23,638
Total current liabilities		1,779,366	1,744,536
Total liabilities, excluding net assets attributable to unitholders		11,480,411	11,430,198
Net assets attributable to unitholders		27,720,640	28,080,100
Units in issue and to be issued ('000)	15	2,027,307	2,014,670
Net asset value per unit attributable to unitholders (HK\$)	16	13.67	13.94

Notes

(1) General

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and listed on The Stock Exchange of Hong Kong Limited (“**SEHK**”). Fortune REIT is governed by the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong (the “**SFC**”) and the Trust Deed made between ESR Asset Management (Fortune) Limited (formerly known as “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 with the primary objective of producing stable distributions for unitholders and to achieve long term growth in the net asset value per unit.

(2) Basis of preparation

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK and with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board (“**IASB**”) as well as the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the SFC.

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

(3) Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Other than the 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 2024 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2023.

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 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1

Classification of Liabilities as Current or Non-current

Amendments to IAS 1

Non-current liabilities with Covenants

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

(4) Segmental reporting

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

As at 30 June 2024, The Group owns 16 (31 December 2023: 16) and 1 (31 December 2023:1) investment properties 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 six months ended 30 June 2024, revenue of HK\$861.4 million (six months ended 30 June 2023: HK\$899.0 million) is attributable to tenants from the Hong Kong investment properties and HK\$10.4 million (six months ended 30 June 2023: HK\$9.7 million) is attributable to tenants from the Singapore investment property. As at 30 June 2024, investment properties of HK\$38,167 million (31 December 2023: HK\$38,439 million) are located in Hong Kong and HK\$547.9 million (31 December 2023: HK\$558.3 million) in Singapore.

(5) Revenue

	<i>Six months ended 30 June</i>	
	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue arising from operating lease:		
Fixed	683,876	717,532
Variable	4,690	6,472
Charge-out collections	122,412	121,752
Car park revenue	60,062	61,433
Other income	738	1,499
	<u>871,778</u>	<u>908,688</u>

(6) Property operating expenses

	<i>Six months ended 30 June</i>	
	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Advertising and promotion	8,646	14,546
Building management expenses	121,215	113,243
Car park operating expenses	17,456	16,147
Government rents and rates	7,225	7,140
Leasing commission and marketing services fee	11,641	7,774
Legal and other professional fees	5,609	5,040
Property management fee	20,545	21,699
Utilities	17,268	21,230
Others	9,501	9,180
	<u>219,106</u>	<u>215,999</u>

(7) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on bank borrowings	276,227	219,018
Amortisation of front-end fees	9,879	9,586
Commitment fee	879	378
Interest rate swaps income realised	(88,837)	(76,745)
	<u>198,148</u>	<u>152,237</u>
Change in fair value of derivative financial instruments	12,211	55,216
	<u>210,359</u>	<u>207,453</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,504	1,504
Fees to internal auditor	225	225
Allowance (reversal of allowance) for credit losses	480	(584)
Valuation fees (paid to principal valuer)	154	154
	<u>1,504</u>	<u>1,504</u>

(9) Income tax expense

	<i>Six months ended 30 June</i>	
	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax	64,305	79,455
Deferred taxation	10,152	8,333
	<u>74,457</u>	<u>87,788</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2023: 16.5%). Fortune REIT's subsidiary in Singapore is subject to Singapore income tax at 17% (six months ended 30 June 2023: 17%) for the period.

Deferred tax is provided on temporary differences in relation to accelerated tax depreciation using the current applicable rates.

(10) (Loss)/ Earnings per unit

Basic loss per unit is calculated by dividing the loss for the six months ended 30 June 2024, before transactions with unitholders of HK\$36.4 million by the weighted average of 2,022,161,088 units outstanding during the period.

Basic earnings per unit is calculated by dividing the profit for the six months ended 30 June 2023, before transactions with unitholders of HK\$279.1 million by the weighted average of 1,997,979,803 units outstanding during the period.

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

(11) Investment properties

	<i>Fair Value</i>
	<i>HK\$'000</i>
	<i>(Unaudited)</i>
As at 1 January 2024	38,997,280
During the period:	
Capital expenditure incurred in upgrading investment properties	50,872
Change in fair value of investment properties	(322,872)
Exchange adjustments	(10,360)
As at 30 June 2024	<u>38,714,920</u>

(12) Trade and other receivables

	<i>30 June 2024 HK\$'000 (Unaudited)</i>	<i>31 December 2023 HK\$'000 (Audited)</i>
Trade receivables	42,194	41,101
Less: Allowance for credit losses	<u>(4,844)</u>	<u>(4,364)</u>
	<u>37,350</u>	<u>36,737</u>
Other receivables and prepayments		
Security deposits	25,733	25,847
Interest receivables	18,149	22,475
Other receivables	1,079	1,058
Prepayments	<u>8,014</u>	<u>7,689</u>
	<u>52,975</u>	<u>57,069</u>
	<u>90,325</u>	<u>93,806</u>

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

	<i>30 June 2024 HK\$'000 (Unaudited)</i>	<i>31 December 2023 HK\$'000 (Audited)</i>
0 - 30 days	33,126	33,969
31 - 90 days	3,451	1,397
Over 90 days	<u>773</u>	<u>1,371</u>
	<u>37,350</u>	<u>36,737</u>

(13) Borrowings

	<i>30 June 2024 HK\$'000 (Unaudited)</i>	<i>31 December 2023 HK\$'000 (Audited)</i>
Unsecured term loans	7,100,000	7,100,000
Unsecured revolving loans	<u>2,630,227</u>	<u>2,615,929</u>
	9,730,227	9,715,929
Less: unamortised front-end fees	<u>(47,596)</u>	<u>(57,555)</u>
	<u>9,682,631</u>	<u>9,658,374</u>
Carrying amount repayable:		
Within one year	680,000	660,000
More than one years, but not more than two years	5,777,853	2,490,941
More than two years, but not more than five years	<u>3,224,778</u>	<u>6,507,433</u>
	9,682,631	9,658,374
Less: Amount due within one year shown under current liabilities	<u>(680,000)</u>	<u>(660,000)</u>
	<u>9,002,631</u>	<u>8,998,374</u>

(14) Trade and other payables

	<i>30 June 2024 HK\$'000 (Unaudited)</i>	<i>31 December 2023 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits	440,060	446,326
Rental received in advance	49,443	47,470
	<u>489,503</u>	<u>493,796</u>
Other payables		
Trustee's fee	382	824
Manager's fees	15,375	6,408
Operating expenses	170,012	193,503
Interest payable	192	217
Others	3,550	3,190
	<u>189,511</u>	<u>204,142</u>
	<u>679,014</u>	<u>697,938</u>

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

The tenants' deposits to be settled after twelve months from the end of the reporting period based on lease term amounted to HK\$267.1 million (31 December 2023: HK\$274.7 million) as at 30 June 2024.

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2023	1,992,462	8,599,056
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2023	<u>16,191</u>	<u>88,694</u>
Balance in issue as at 31 December 2023	2,008,653	8,687,750
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2023	<u>6,017</u>	<u>29,488</u>
Balance as at 31 December 2023	2,014,670	8,717,238
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2024	<u>6,557</u>	<u>23,330</u>
Balance in issue as at 30 June 2024	2,021,227	8,740,568
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2024	6,080	23,165
Balance as at 30 June 2024	<u>2,027,307</u>	<u>8,763,733</u>

(16) Net asset value per unit attributable to unitholders

Net asset value per unit as at 30 June 2024 is calculated based on the net assets attributable to unitholders of the Group of HK\$27,720.6 million (31 December 2023: HK\$28,080.1 million) and the total number of 2,027,306,693 units (31 December 2023: 2,014,669,562 units) in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 30 June 2024, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,570.9 million (31 December 2023: HK\$1,539.4 million).

As at 30 June 2024, the Group's total assets less current liabilities amounted to HK\$37,421.7 million (31 December 2023: HK\$37,765.8 million).