

AHEAD OF THE CURVE 佔盡先機 穩健前行

Interim Report 中期報告 2023



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**”).

Fortune REIT holds a portfolio of 17 retail properties, with 16 private housing estate retail properties in Hong Kong and 1 neighbourhood mall in Singapore, comprising approximately 3 million square feet (“**Sq. ft.**”) of retail space and 2,793 car parking spaces.

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 over US\$150 billion in total assets under management (AUM), ESR’s fully integrated development and investment management platform extends across key APAC markets, including Greater 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\$46 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.

OUR MISSION

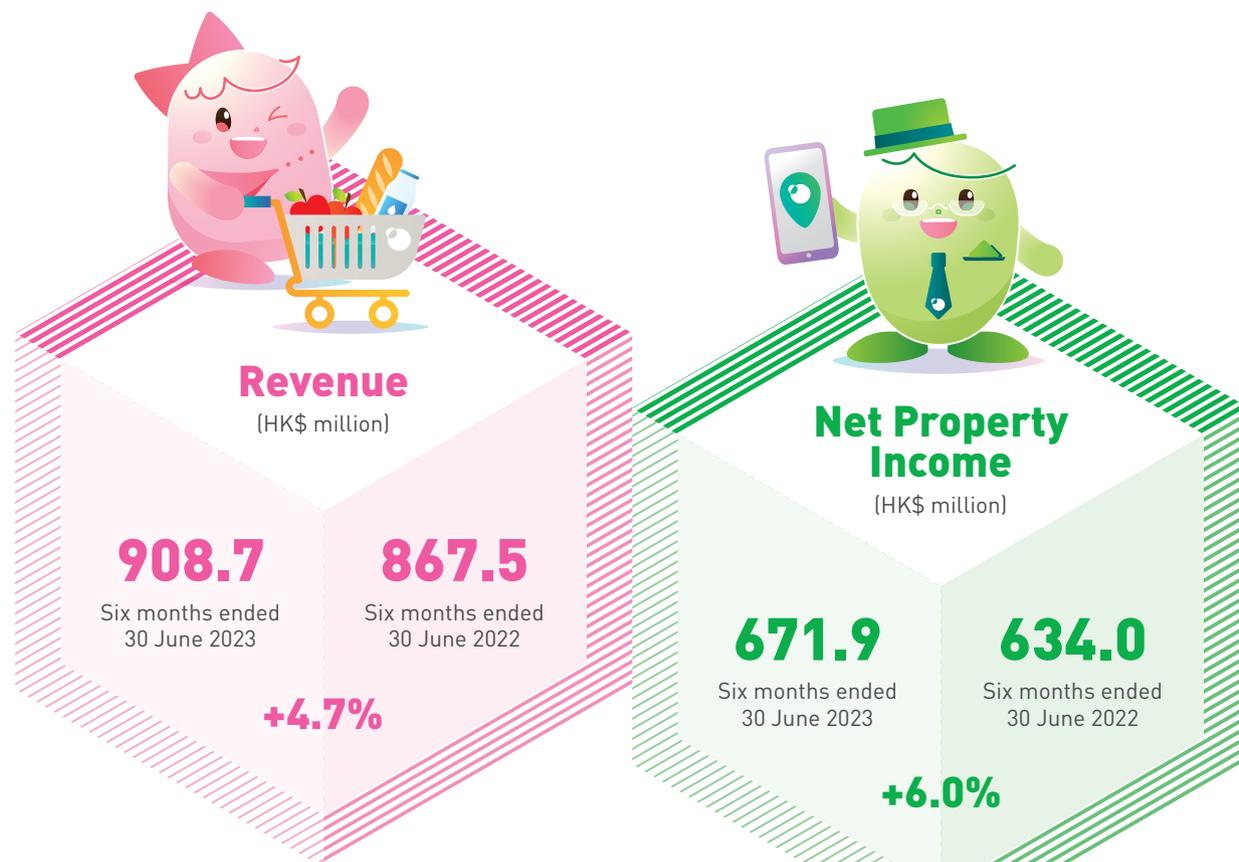
The Manager’s key objective is to deliver regular and stable returns to holders of Fortune REIT units (“**Unitholders**”) through proactive management of Fortune REIT’s portfolio of assets and acquiring properties that generate long term benefits to Unitholders.



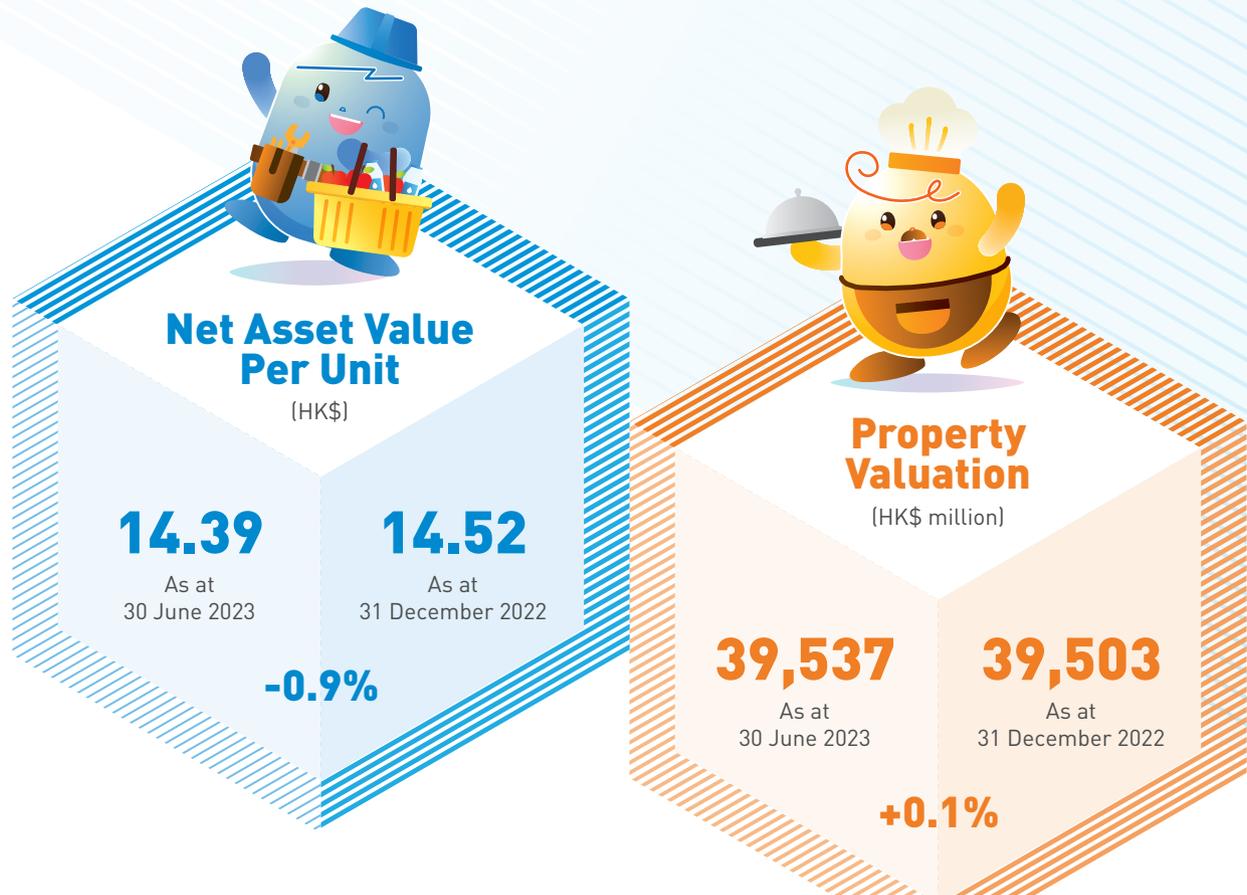
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Financial Highlights



	Six months ended 30 June 2023	Six months ended 30 June 2022	% change
Revenue (HK\$ million)	908.7	867.5	+4.7%
Net property income (HK\$ million)	671.9	634.0	+6.0%
Income available for distribution (HK\$ million)	447.7	456.9	-2.0%
Distribution to unitholders (HK\$ million)	447.7	456.9	-2.0%
Distribution per unit ("DPU") (HK cents)	22.36	23.05	-3.0%
Cost-to-revenue ratio	23.8%	24.7%	-0.9%



	As at 30 June 2023	As at 31 December 2022	% change
Property valuation (HK\$ million)	39,537	39,503	+0.1%
Net asset value per unit (HK\$)	14.39	14.52	-0.9%
Gearing ratio ⁽¹⁾	23.8%	23.9%	-0.1%

Note:

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

3 GROWTH STRATEGIES



Yield-accretive acquisition

Since its establishment in 2003, Fortune REIT's portfolio valuation has been increased by more than 11 times to currently HK\$39.5 billion. We will continue to explore new acquisitions opportunities prudently in order to deliver attractive returns to Unitholders. With gearing of 23.8%, Fortune REIT possess ample debt headroom for future expansion.



Active leasing management

Thanks to Fortune REIT's flexible leasing strategy, portfolio occupancy remained healthy at 94.1% as at 30 June 2023. Fortune Malls witnessed a pick-up in leasing momentum during the first half of 2023 and signed leases for a total of 378,000 sq.ft., representing 12.5% of total portfolio area. Tenant retention rate was 77% with some sectors continued to see a gradual improvement in rental.



Asset enhancement initiatives (“AEIs”)

Fortune REIT continued to make progress on the renovation at +WOO Phase 2, with the second stage of the three-stage project approaching its phased completion in the third quarter of 2023. The refurbished zones have already boosted footfall and attracted new tenants from a wide range of sectors, including food and beverage, sports and wellness and leisure and entertainment. The final phase of the refurbishment is expected to be fully completed in the first half of 2024.



Management Discussion and Analysis

FINANCIAL REVIEW

Emerging from the COVID-19 pandemic, 2023 marked the reopening of Hong Kong and its gradual return to normalcy and growth.

For the six months ended 30 June 2023 (the “**Reporting Period**”), Fortune REIT’s gross revenue rose 4.7% year-on-year to HK\$908.7 million (first half of 2022: HK\$867.5 million), with all major revenue streams including base rental, car park income, charge-out income and turnover rent recording improvement. The higher revenue was also partly attributable to the absence of rental rebate in the Reporting Period, while rental concessions were offered to assist tenants during the fifth wave of COVID-19 a year ago.

Total property operating expenses (excluding the Manager’s performance fee) increased 1.0% year-on-year to HK\$216.0 million (first half of 2022: HK\$213.9 million). The increase was mainly attributable to higher utilities costs, building management expenses and advertising and promotion expenses, partially offset by savings in leasing commissions and allowance for credit losses. As a result, net property income for the Reporting Period increased by 6.0% year-on-year to HK\$671.9 million (first half of 2022: HK\$634.0 million). Cost-to-revenue ratio improved to 23.8% from 24.7% for the first half of 2022.

Finance costs (excluding fair value changes on derivative financial instruments) grew 53.8% year-on-year to HK\$152.2 million (first half of 2022: HK\$99.0 million), attributable to the sharp increase in interest rates since the second half of 2022 and the higher level of debt following the acquisition of Stars of Kovan Property. The effective borrowing cost for the Reporting Period was 3.2% (first half of 2022: 2.2%).

Income available for distribution for the Reporting Period amounted to HK\$447.7 million (first half of 2022: HK\$456.9 million). With a 100% distribution payout ratio for the Reporting Period, the interim DPU was 22.36 HK cents (first half of 2022: 23.05 HK cents), representing a 3.0% decrease year-on-year. Based on the closing unit price of HK\$5.64 as at 30 June 2023, the interim DPU implied an annualised distribution yield of 8.0%.

The interim DPU of 22.36 HK cents for the six months ended 30 June 2023 will be paid on 22 September 2023 to Unitholders whose names appear on the register of Unitholders of Fortune REIT as at 24 August 2023.

Capital Management

As at 30 June 2023, Fortune REIT's balance sheet remains robust with a gearing ratio of 23.8%, similar to the level at the end of 2022 (31 December 2022: 23.9%). Approximately 63% of total debt has been hedged to fixed rates, partially mitigating the impact of rising interest rates.

Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitments and working capital requirements. As at 30 June 2023, Fortune REIT's total loan facilities drawn down amounted to HK\$9,588.4 million (31 December 2022: HK\$9,636.7 million). Gross liabilities as a percentage of gross assets were 28.4% (31 December 2022: 28.3%). Available liquidity amounted to HK\$514.1 million (31 December 2022: HK\$447.3 million), comprising committed but undrawn loan facilities of HK\$340.5 million (31 December 2022: HK\$240.4 million) and bank deposits of HK\$173.6 million (31 December 2022: HK\$206.9 million). In addition, HK\$450.0 million of uncommitted revolving loan facilities remained undrawn at the end of the Reporting Period.

Net asset value per unit amounted to HK\$14.39 as at 30 June 2023 (31 December 2022: HK\$14.52).

Portfolio Valuation

As at 30 June 2023, the total value of Fortune REIT's investment properties remained stable at HK\$39,537 million (31 December 2022: HK\$39,503 million), reflecting the stable rental performance of the portfolio. The average capitalisation rate of the Hong Kong assets remained unchanged at 4.3%.

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

Management Discussion and Analysis

BUSINESS REVIEW

Since the easing of COVID-19 related restrictions and the relaxation of border entry requirements in the fourth quarter of 2022, Hong Kong's retail sales have recorded year-on-year growth for seven consecutive months. In the first six months of 2023, total retail sales value soared by 21% year-on-year, benefiting from improved consumption sentiment and a rebound in visitor arrivals, also partly helped by a low base in 2022. Tourist arrivals have also seen notable year-on-year growth since the beginning of 2023 and the arrivals in the second quarter of 2023 have reached 56% of the same period in 2018. Hence, tourist-oriented sectors have benefited the most. In particular, sales of Jewelry & Watches rose by 74% year-on-year, followed by Clothing & Footwear (up 50% year-on-year) and Medicines & Cosmetics (up 39% year-on-year).

Fortune REIT's portfolio of neighbourhood malls has a high concentration on essential trades. About 69% of Fortune Malls' tenants are convenience and non-discretionary retailers or operators. Although the discretionary retail sectors have been the bright spot in the market recovery in Hong Kong year to date, Fortune Malls have nevertheless witnessed a pick-up in leasing inquiries and momentum. During the first half of 2023, a total of 378,000 sq.ft. of new and renewed leases were signed at Fortune Malls, representing 12.5% of the total portfolio area. Tenant retention rate was 77%. More than half of the leases expiring in 2023 have been renewed or relet. Despite the major AElS underway at our largest property, +WOO, the portfolio's occupancy rate remained healthy at 94.1% as at 30 June 2023. Rental performance has been mixed across the portfolio with some sectors continuing to see gradual recovery while individual trades such as real estate agents and kindergartens encountering challenges of their own.

Riding on the retail market recovery as well as the first round of the 2023 consumption voucher scheme (the "2023 CVS"), Fortune Malls has spared no effort in boosting mall traffic and driving tenants' sales. In addition to targeted campaigns and redemption programmes on-site, we continued to advance the development of the Fortune Malls APP. We introduced new in-app offerings and expanded our collaborative partnerships with tenants. The Fortune Malls e-Voucher programme currently has participation from more than 200 tenants and has successfully generated repeat traffic and business. As indicators of our mall traffic, hourly car park income and footfall grew by 26.1% and 20.3% respectively year-on-year in the first half of 2023. While hourly car park income, partly helped by an increase in hourly rates, has already surpassed the 2018 pre-COVID level, footfall was still 11.2% below the 2018 pre-COVID level.

+WOO AElS on track for completion in 2024

The HK\$300 million AElS at +WOO Phase 2 made further progress during the Reporting Period, with the second stage of the three-stage project approaching its phased completion in the third quarter of 2023. Reconfigured with modernised atriums, enhanced store layout and relocation of new escalators, as well as the addition of an outdoor children's playground and inclusive facilities, the refurbished zones have already boosted footfall and attracted new tenants from a wide range of sectors, including food and beverage, sports and wellness and leisure and entertainment. The final stage will follow and we expect the refurbishment to be fully completed in the first half of 2024.

Metro Town space reconfiguration yields good returns

Conveniently situated at the major transportation hub of Tseung Kwan O with direct access to Tiu Keng Leng MTR Station, Metro Town always attracts regular and huge crowds from the surrounding areas. In January 2023, we took the opportunity to reconfigure a 8,500 sq.ft. vacant kindergarten unit together with two adjacent shops into three brand new shops, offering more choices of food and beverage and homeware to our shoppers. As the subject area is located at the entrance where visitors come from the 7,000-unit Kin Ming Estate and the 4,720-unit Choi Ming Court, the AElS have led to increased foot traffic and generated a satisfactory return on investment of 11% for Metro Town.

OUTLOOK

At the mid-point of 2023, Hong Kong's economy has shown resilience despite the threat of a deteriorating external economic environment and tightened financial conditions. Hong Kong GDP rebounded in the first quarter of 2023 with a 2.9% increase year-on-year, led by strong recovery in inbound tourism and domestic demand. Economic growth however, slowed to 1.5% year-on-year in the second quarter of 2023. Rental market recovered modestly as retail sales value and restaurant receipts remained around 17% and 7% below their pre-pandemic levels in 2018 respectively. Looking ahead to the second half of 2023, the Hong Kong Government's second round disbursement of the 2023 CVS in July and the Happy Hong Kong Campaign will continue to be a driving force for the retail market as they will stimulate local spending and attract inbound travellers. That said, we are also mindful of the challenges that may hinder the recovery of our business. In 2023, demand for outbound travel continues to climb, especially during long weekends and holidays. The increase in outbound travel is expected to continue as flight capacity gradually expands, which may take some local spending overseas. Labour shortages and inflation are putting cost pressure on our operation, and the prolonged period of higher interest rates will also have a negative impact on our bottom line.

Fortune REIT's resilience has always been underpinned by its prudent capital management. With a healthy gearing of 23.8% and an interest coverage ratio of 4.6 times, Fortune REIT's financial position remains solid. Around 63% of Fortune REIT's borrowings are hedged to fixed rates through interest rate swaps of varying maturities. The proportion of debt hedged is expected to remain at current levels throughout 2023 and continues to protect Fortune REIT from rising interest rates. In addition, upon the refinancing of a HK\$1.5 billion loan in October 2023, there will be no further refinancing needs until late 2025.

To forge ahead in the post-pandemic world, the Manager will continue to focus on asset and capital management while maintaining flexibility to navigate the rapidly changing operating environment. As a leading operator of neighbourhood malls with a primary focus on an essentials-focused trade mix, we remain cautiously optimistic about the long-term prospects of Fortune REIT portfolio.

Corporate Governance

With the objective of establishing and maintaining high standards of corporate governance, the Board has established a corporate governance framework with internal controls, systems, policies and procedures in place to promote the operation of Fortune REIT in an accountable and transparent manner and with built-in checks and balances to ensure compliance with relevant regulations.

REGULATORY FRAMEWORK AND CORPORATE GOVERNANCE

Fortune REIT is a real estate investment trust listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “SEHK”). Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong (the “Applicable Rules”), 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 “Listing Rules”). 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 Rules. For further details, please refer to the Corporate Governance Report in Annual Report 2022 of Fortune REIT.

COMPLIANCE CONFIRMATIONS

The Board confirms that Fortune REIT and the Manager have complied with the REIT Code, the SFO, Listing Rules, the Trust Deed as well in material respects complied with the provisions of the Compliance Manual. The Board also confirms that Fortune REIT and the Manager have adhered to the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Period and have provided explanations in cases of deviations (if any).

During the Reporting Period, there were no amendments to the Trust Deed and the Compliance Manual.

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 (“ESG”), financial performance and the appointment, reappointment and removal of the directors of the Manager (the “Directors”). The Board has established a corporate governance framework for the management of Fortune REIT and the Manager, including a system of internal controls and business risk management processes. The Board has set the vision, mission and values of Fortune REIT which are instilled within the culture of the Manager. Directors have shaped and promoted the culture of the Manager through leading by example, acting with integrity and providing supervision to ensure that the values of acting lawfully, ethnically and responsibly are echoed throughout Fortune REIT and the Manager’s operations.

As at 30 June 2023, the Board comprised nine members, eight of whom were Non-Executive Directors ("**NEDs**"). Four of the NEDs were Independent Non-Executive Directors ("**INEDs**"). The positions of Chairman and Chief Executive Officer were held by two different persons in order to maintain an effective segregation of duties.

The Board meets to review the Manager's key activities. Board meetings are held once every quarter (or more often if necessary) to discuss and review the objectives, 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.

The Board is assisted by the Audit Committee, the Disclosures Committee, the Designated Committee and the Nomination Committee. Each of these Board Committees report back to the Board and have their own terms of reference, which have been approved by the Board and reviewed from time-to-time. In addition to aid the Board with operational matters, working committees such as the Sustainability Committee and the Risk Management Committee have been established to assist the Board with sustainability efforts and risk management relating to Fortune REIT. The roles of each aforesaid Board Committees are:

- 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, among other things, 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, among other things, 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, composition, diversity profile and skills matrix of the Board, including appointment of Directors, assessing the independence of the INEDs and reviewing Board Diversity policy of the Manager.

Corporate Governance

COMPLIANCE WITH THE UNIT DEALING CODE

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.

CHANGES OF DIRECTORS’ INFORMATION

Subsequent to publication of the Annual Report 2022 of Fortune REIT, the Manager received notifications regarding the following changes of Directors’ information during the Reporting Period:

- Mr. Ma Lai Chee, Gerald ceased to be a member of the President’s Circle and the Dean’s Advisory Board for the Faculty of Arts of the University of British Columbia, Canada; and
- Ms. Cheng Ai Phing completed her term as an External Member of the Audit & Risk Committee of Asian Infrastructure Investment Bank in May 2023.

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, and approved by the Board. 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.

OTHER INFORMATION

Employees

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

New Units Issued

As at 30 June 2023, the total number of issued units of Fortune REIT was 1,996,969,182. As compared with the position as at 31 December 2022, a total of 9,343,970 new units were issued during the Reporting Period in the following manner:

- On 6 January 2023, 4,836,620 new units were issued to the Manager at the price of HK\$6.176 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 2022 to 31 December 2022.
- On 11 April 2023, 4,507,350 new units were issued to the Manager at the price of HK\$6.485 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 2023 to 31 March 2023.

Repurchase, Sale or Redemption of Units

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 2023.

Corporate Governance

DISCLOSURE OF INTERESTS

Unit Capital

The total number of issued units as at 30 June 2023 is 1,996,969,182 units.

Holdings of Substantial Unitholders

As at 30 June 2023, 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	20.69%	–	–
CK Asset Holdings Limited (“CK Asset”) ¹	–	–	525,630,684	26.32%

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.

Interests of the Manager

As at 30 June 2023, the Manager held 27,148,252 units, or approximately 1.36% 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 2023 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 Other Connected Persons

As at 30 June 2023, associates of the Trustee (as defined in Chapter 8 of the REIT Code) were beneficially interested in 864,000 units, or approximately 0.04% of the issued units of Fortune REIT.

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 2023.

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 2023 and 31 December 2022:

- (a) The Manager was beneficially interested in 27,148,252 units as at 30 June 2023 and 22,640,902 units as at 31 December 2022.
- (b) The Trustee did not hold any beneficial interest in any unit of Fortune REIT as at 30 June 2023 and 31 December 2022. Associates of the Trustee (as defined in Chapter 8 of the REIT Code) were beneficially interested in 864,000 units of Fortune REIT as at 30 June 2023 and did not hold any beneficial interests in any units as at 31 December 2022.

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 2023 HK\$'000	Rental deposit received as at 30 June 2023 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	15,389	–
Citybase Property Management Limited	Associate of a substantial holder ¹	Leasing transactions	1,277	710
Towerich Limited	Associate of a substantial holder ¹	Licensing transactions	36	20
Total			19,304	2,193

Note:

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

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 2023 HK\$'000
APM Property Management Pte. Ltd.	Associate of Manager	Property and lease management fee and marketing service fee	525
Citybase Property Management Ltd	Associate of a substantial holder ¹	Property management and operations	560
E-Park Parking Management Limited	Associate of a substantial holder ¹	Carpark lease agency fee	4,837
Goodwell-Fortune Property Services Limited	Associate of a substantial holder ¹	Property and lease management fee and marketing service fee	28,656
Goodwell Property Management Limited	Associate of a substantial holder ¹	Property management and operations	100
Total			34,678

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 2023 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Manager's fee	79,586
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee's fee	2,547
Total			82,133

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 2023 HK\$'000	Rental deposit received as at 30 June 2023 HK\$'000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing and licensing transactions	5,984	3,433
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)	Trustee Connected Persons	Leasing and licensing transactions	5,025	2,097
Total			11,009	5,530

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.

Corporate Information

MANAGER

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DIRECTORS OF THE MANAGER

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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

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AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

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Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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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 51, which comprise the condensed consolidated statement of financial position as of 30 June 2023 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
8 August 2023

Financial Statements

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	5	908,688	867,499
Property operating expenses	6	(215,999)	(213,869)
Net property income before manager's performance fee		692,689	653,630
Manager's performance fee		(20,784)	(19,609)
Net property income		671,905	634,021
Manager's base fee		(58,802)	(58,539)
Interest income		95	15
Trust expenses		(4,126)	(2,574)
Change in fair value of investment properties	11	(34,698)	(382,623)
Finance costs	7	(207,453)	294,264
Profit before taxation and transactions with unitholders	8	366,921	484,564
Income tax expense	9	(87,788)	(95,543)
Profit for the period, before transactions with unitholders		279,133	389,021
Distributions to unitholders		(447,658)	(456,911)
Loss for the period, after transactions with unitholders		(168,525)	(67,890)
Other comprehensive expense			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange difference arising on translation of a foreign operation		(58)	-
Total comprehensive expense for the period		(168,583)	(67,890)
Basic earnings per unit (HK cents)	10	13.97	19.66

Distribution Statement

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit for the period, before transactions with unitholders		279,133	389,021
Adjustments:			
Manager's base fee		58,802	58,539
Change in fair value of investment properties	11	34,698	382,623
Change in fair value of derivative financial instruments	7	55,216	(393,276)
Non-cash finance costs		11,476	3,983
Deferred tax	9	8,333	16,021
Income available for distribution (note (i))		447,658	456,911
Percentage of distribution to unitholders		100%	100%
Distribution to unitholders (note (ii))		447,658	456,911
Distribution per unit (HK cents) (note (iii))		22.36	23.05

Distribution Statement

For the six months ended 30 June 2023

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\$447.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$456.9 million), representing a payout ratio of 100% (six months ended 30 June 2022: 100%) of Fortune REIT's income available for distribution of HK\$447.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$456.9 million).
- (iii) The distribution per unit of 22.36 HK cents for the six months ended 30 June 2023 is calculated based on the interim distribution to unitholders amount of HK\$447.7 million over 2,002,210,502 units, representing 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 settlement of the Manager's base fee for its services in the second quarter of 2023 of 5,241,320 units. 2023 interim distribution will be paid on 22 September 2023.

The distribution per unit of 23.05 HK cents for the six months ended 30 June 2022 was calculated based on the interim distribution to unitholders amount of HK\$456.9 million over 1,982,478,110 units, represented issued units as at 30 June 2022 of 1,977,947,795 units plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2022 of 4,530,315 units. 2022 interim distribution was paid on 16 September 2022.

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	39,537,026	39,503,270
Derivative financial instruments	12	435,481	509,503
Total non-current assets		39,972,507	40,012,773
Current assets			
Derivative financial instruments	12	18,806	–
Trade and other receivables	13	96,757	115,546
Cash and cash equivalents		173,585	206,864
Total current assets		289,148	322,410
Total assets		40,261,655	40,335,183
Non-current liabilities			
Borrowings	14	7,489,978	7,480,197
Deferred tax liabilities	15	692,054	683,721
Total non-current liabilities		8,182,032	8,163,918
Current liabilities			
Trade and other payables	16	703,598	706,944
Borrowings	14	2,049,065	2,097,565
Distribution payable		447,658	420,350
Provision for taxation		61,782	19,105
Total current liabilities		3,262,103	3,243,964
Total liabilities, excluding net assets attributable to unitholders		11,444,135	11,407,882
Net assets attributable to unitholders		28,817,520	28,927,301
Units in issue and to be issued ('000)	17	2,002,210	1,992,462
Net asset value per unit attributable to unitholders (HK\$)	18	14.39	14.52

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2023

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2023 (Audited)	8,599,056	(286,279)	330	20,614,194	28,927,301
OPERATIONS					
Profit for the period, before transactions with unitholders	-	-	-	279,133	279,133
Distribution paid and payable of 22.36 HK cents per unit for the six months ended 30 June 2023	-	-	-	(447,658)	(447,658)
Exchange difference arising on translation of a foreign operation	-	-	(58)	-	(58)
Total comprehensive expense for the period	-	-	(58)	(168,525)	(168,583)
UNITHOLDERS' TRANSACTIONS					
Creation of units					
– Manager's base fee paid/payable in units	58,802	-	-	-	58,802
Increase in net assets resulting from unitholders' transactions	58,802	-	-	-	58,802
Net assets attributable to unitholders as at 30 June 2023 (Unaudited)	8,657,858	(286,279)	272	20,445,669	28,817,520

	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)
Total 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 Cash Flows

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Net cash from operating activities		
Profit before tax	366,921	484,564
Adjustments for:		
Change in fair value of investment properties	34,698	382,623
Change in fair value of derivative financial instruments	55,216	(393,276)
Other finance costs	152,237	99,012
Other operating activities	35,363	54,543
	644,435	627,466
Net cash used in investing activities:		
Upgrading of investment properties	(66,698)	(83,623)
Interest received	95	15
	(66,603)	(83,608)
Net cash used in financing activities:		
Drawdown of borrowings	500,000	1,530,000
Repayment of borrowings	(550,000)	(1,500,000)
Distribution paid	(420,350)	(392,184)
Interest paid	(140,761)	(95,029)
Payment of front-end fees	-	(12,000)
	(611,111)	(469,213)
Net (decrease)increase in cash and cash equivalents	(33,279)	74,645
Cash and cash equivalents at beginning of the period	206,864	117,962
Cash and cash equivalents at end of the period, represented by cash at bank	173,585	192,607

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

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 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 2023

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 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

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 2023 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IFRS Practice Statement 2

Disclosure of Accounting Policies

Amendments to IAS 8

Definition of Accounting Estimates

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.

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 Manager, in order to allocate resources to segments and to assess their performance.

As at 30 June 2023, the Group owns 16 (31 December 2022: 16) and 1 (31 December 2022: 1) investment properties in Hong Kong and Singapore respectively. 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.

For the six months ended 30 June 2023, revenue of HK\$899.0 million (six months ended 30 June 2022: HK\$867.5 million) is attributable to tenants from the Hong Kong investment properties and HK\$9.7 million (six months ended 30 June 2022: nil) is attributable to tenants from the Singapore investment property. As at 30 June 2023, investment properties of HK\$38,987.0 million (31 December 2022: HK\$38,955.0 million) are located in Hong Kong and HK\$550.0 million (31 December 2022: HK\$548.3 million) in Singapore.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

5 REVENUE

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue arising from operating lease: (note (i))		
Fixed	717,532	692,255
Variable	6,472	2,618
Charge-out collections (note (ii))	121,752	116,101
Car park revenue (note (ii))	61,433	55,383
Other income	1,499	1,142
	908,688	867,499

Notes:

- (i) Operating lease payments mainly include base rental, licence fees and contingent rentals. Leases are negotiated for terms ranging primary from two to four 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 and Singapore 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.

6 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Advertising and promotion	14,546	15,584
Building management expenses	113,243	109,727
Car park operating expenses	16,147	15,238
Government rents and rates	7,140	6,805
Leasing commission and marketing services fee	7,774	13,323
Legal and other professional fees	5,040	3,436
Property management fee	21,699	20,880
Utilities	21,230	16,649
Others	9,180	12,227
	215,999	213,869

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

7 FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest expenses on bank borrowings	219,018	57,949
Amortisation of front-end fees	9,586	9,000
Commitment fee	378	403
Interest rate swaps (income) expense realised	(76,745)	31,660
	152,237	99,012
Change in fair value of derivative financial instruments	55,216	(393,276)
	207,453	(294,264)

8 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Fees to external auditor	1,504	1,464
Fees to internal auditor	225	175
Trustee's fee	2,547	2,543
(Decrease) increase in allowance for credit losses	(584)	3,092
Valuation fees (paid to principal valuer)	154	154

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Current tax	79,455	79,522
Deferred taxation	8,333	16,021
	87,788	95,543

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2022: 16.5%) for the period.

Fortune REIT's subsidiary in Singapore is subject to Singapore income tax at 17% (six months ended 30 June 2022: N/A) for the period.

10 EARNINGS PER UNIT

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.

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.

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

	Fair Value HK\$'000 (Unaudited)
As at 1 January 2023	39,503,270
During the period:	
Capital expenditure incurred in upgrading investment properties	66,698
Change in fair value of investment properties	(34,698)
Exchange adjustments	1,756
As at 30 June 2023	39,537,026

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 2023 and 31 December 2022, independent valuations were undertaken by Colliers International (Hong Kong) Limited ("Colliers"). This firm is independent qualified external valuer 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, and are assumed to be let at their respective market rents upon expiry of the existing tenancy contracts 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 of Hong Kong properties in the valuation range from 4.0% - 4.8% (31 December 2022: 4.0% - 4.8%) and that of Singapore property in the valuation is 3.0% (31 December 2022: 3.0%). 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 2023 and 31 December 2022 was pledged to secure banking facilities granted to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

12 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Derivative financial instruments are analysed as:		
Derivatives not under hedge accounting:		
Interest rate swaps	454,287	509,503
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Current assets	18,806	–
Non-current assets	435,481	509,503
	454,287	509,503

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.

Derivatives not under hedge accounting:

Contracts not under hedge accounting with total notional amount of HK\$6,000.0 million (31 December 2022: HK\$6,000.0 million) as at 30 June 2023 will mature from March 2024 to December 2028 (31 December 2022: March 2024 to December 2028). These contracts have fixed interest payments at rates ranging from 0.900% to 2.245% (31 December 2022: 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 loss of HK\$55.2 million (six months ended 30 June 2022: a gain of HK\$393.3 million), is recognised in the profit or loss for the six months ended 30 June 2023.

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.

12 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives not under hedge accounting: (Continued)

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.

13 TRADE AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables	48,890	65,601
Less: Allowance for credit losses	(4,635)	(5,219)
	44,255	60,382
Other receivables and prepayments:		
– Security deposits	25,740	25,670
– Interest receivables	18,389	20,357
– Other receivables	899	1,034
– Prepayments	7,474	8,103
	52,502	55,164
	96,757	115,546

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0 - 30 days	38,978	51,760
31 - 90 days	1,094	3,967
Over 90 days	4,183	4,655
	44,255	60,382

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 2023	5,219
Decrease in allowance for credit losses recognised in profit or loss	(584)
As at 30 June 2023	4,635

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\$35.2 million (31 December 2022: HK\$41.1 million).

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 30 June 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$8.9 million (31 December 2022: HK\$19.3 million) which are past due as at the reporting date. Out of the past due balances, an aggregate gross carrying amount of HK\$8.8 million (31 December 2022: HK\$9.9 million) has been past due 90 days or more and considered as default for which allowance of credit losses has been made on the 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.

14 BORROWINGS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Unsecured term loans	7,200,000	7,200,000
Unsecured revolving loans	2,388,447	2,436,727
	9,588,447	9,636,727
Less: unamortised front-end fees	(49,404)	(58,965)
	9,539,043	9,577,762
Carrying amount repayable:		
Within one year	2,049,065	2,097,565
More than two years, but not more than five years	7,489,978	7,480,197
	9,539,043	9,577,762
Less: Amount due within one year shown under current liabilities	(2,049,065)	(2,097,565)
	7,489,978	7,480,197

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

14 BORROWINGS (CONTINUED)

Total committed loan facilities amounted to HK\$9,579.0 million as at 30 June 2023 (31 December 2022: HK\$9,577.1 million), out of which HK\$9,238.4 million (31 December 2022: HK\$9,336.7 million) were drawn and outstanding. Except for the bank borrowings of HK\$538.4 million (31 December 2022: HK\$536.7 million) denominated in S\$ which bear interest at a floating rate of Singapore Overnight Rate Average (“SORA”) plus a margin of 1.05% per annum, all the remaining bank borrowings are denominated in HK\$ and bear interest at 1-month HIBOR plus a margin ranging from 0.98% to 1.25% (31 December 2022: HIBOR plus a margin ranging from 0.98% to 1.25%) per annum.

Total uncommitted revolving loan facilities amounted to HK\$800.0 million as at 30 June 2023 (31 December 2022: HK\$700.0 million), out of which HK\$350.0 million (31 December 2022: HK\$300.0 million) were drawn and outstanding.

The Trustee (in its capacity as Trustee of Fortune REIT) has provided guarantee for all the loan facilities as at 30 June 2023 and 31 December 2022.

15 DEFERRED TAX LIABILITIES

The measurement of deferred tax liabilities which arose mainly from the accelerated and tax depreciation of investment properties and derivative financial instruments reflects the tax consequences that would follow from the manner in which the Group expects to recover the fair value of the investment properties and derivative financial instruments, at the end of the reporting period.

The following is the major component of deferred tax liabilities recognised and movements therein during the period:

	Derivative financial instruments HK\$'000	Accelerated depreciation allowance HK\$'000	Total HK\$'000
As at 1 January 2022	–	562,461	562,461
Charged to profit or loss for the year	84,068	37,192	121,260
As at 31 December 2022	84,068	599,653	683,721
(Credited) charged to profit or loss for the period	(9,111)	17,444	8,333
As at 30 June 2023	74,957	617,097	692,054

16 TRADE AND OTHER PAYABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables		
Tenants' deposits	475,914	474,150
Rental received in advance	44,710	42,973
	520,624	517,123
Other payables		
Trustee's fee	393	616
Manager's performance fees	3,063	6,835
Operating expenses	175,862	176,690
Interest payable	188	266
Others	3,468	5,414
	182,974	189,821
	703,598	706,944

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\$8.7 million (31 December 2022: HK\$8.2 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\$265.5 million (31 December 2022: HK\$277.0 million) as at 30 June 2023.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

17 UNITS IN ISSUE AND TO BE ISSUED

	Number of units '000	HK\$'000
Balance as at 1 January 2022	1,973,804	8,480,638
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	1,987,625	8,569,185
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2022 (note)	4,837	29,871
Balance as at 31 December 2022	1,992,462	8,599,056
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2023	4,507	29,230
Balance in issue as at 30 June 2023	1,996,969	8,628,286
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2023 (note)	5,241	29,572
Balance as at 30 June 2023	2,002,210	8,657,858

Note:

Manager's base fee payable to the Manager is in the form of units. On 7 July 2023, Fortune REIT issued 5,241,320 units at an issue price of HK\$5.642 per unit to the Manager as base fee for the period from 1 April 2023 to 30 June 2023. On 6 January 2023, Fortune REIT issued 4,836,620 units at an issue price of HK\$6.176 per unit to the Manager as base fee for the period from 1 October 2022 to 31 December 2022.

18 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

Net asset value per unit as at 30 June 2023 is calculated based on the net assets attributable to unitholders of the Group of HK\$28,817.5 million (31 December 2022: HK\$28,927.3 million) and the total number of 2,002,210,502 units (31 December 2022: 1,992,461,832 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 2023, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$2,973.0 million (31 December 2022: HK\$2,921.6 million).

20 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2023, the Group's total assets less current liabilities amounted to HK\$36,999.6 million (31 December 2022: HK\$37,091.2 million).

21 CAPITAL COMMITMENTS

As at 30 June 2023, the Group had capital commitments for upgrading investment properties which were contracted but not provided for of HK\$155.2 million (31 December 2022: HK\$204.3 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

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	
		2023 HK\$'000 (Unaudited)	2022 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)	15,389	15,930
Citybase Property Management Limited	(b)	1,277	1,146
Hang Seng Bank Limited	(c)	5,984	7,302
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	(c)	5,025	4,905
Towerich Limited	(b)	36	36
Car park lease agency fee for the operations of the Group's car park			
E-Park Parking Management Limited	(b)	4,837	4,682

22 CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Property management fee and project management fee			
APM Property Management Pte Ltd	(e)	193	–
Citybase Property Management Limited	(b)	560	547
Goodwell-Fortune Property Services Limited	(b)	21,505	20,880
Goodwell Property Management Limited	(b)	100	100
Leasing commission and marketing services fee			
Goodwell-Fortune Property Services Limited	(b)	7,151	13,155
APM Property Management Pte Ltd	(e)	332	–
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	2,547	2,543
Manager's base fee			
ARA Asset Management (Fortune) Limited	(a)	58,802	58,539
Manager's performance fee			
ARA Asset Management (Fortune) Limited	(a)	20,784	19,609

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

22 CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Balance as at period end with connected and related parties:

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables:			
Cheung Kong Property Development Limited	(b)	493	3,931
Other payables:			
ARA Asset Management (Fortune) Limited	(a)	3,063	6,835
HSBC Institutional Trust Services (Asia) Limited	(d)	393	616
Citybase Property Management Limited	(b)	19,679	17,523
E-Park Parking Management Limited	(b)	798	849
Goodwell-Fortune Property Services Limited	(b)	7,126	8,104
Goodwell Property Management Limited	(b)	13,544	21,971
		41,147	48,447
		44,603	55,898
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
Citybase Property Management Limited	(b)	710	710
Hang Seng Bank Limited	(c)	3,433	3,578
HSBC	(c)	2,097	2,355
Towerich Limited	(b)	20	20
		7,723	8,223

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 2023. 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.
- (e) This company is an associate of the Manager 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 2023 and 31 December 2022.

Performance Table

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Net assets attributable to unitholders (HK\$'000)	28,817,520	28,927,301
Net asset value per unit (HK\$)	14.39	14.52
The highest traded price during the period/year (HK\$)	6.95	8.30
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\$)	5.47	4.93
The highest discount of the trade price to net asset value	62.0%	66.0%
The net yield per unit ²	8.0%	7.0%

Notes:

- 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.
- The net yield per unit for the six months ended 30 June 2023 is an annualised yield based on the distribution per unit for the six months ended 30 June 2023 over the last trade price for the period.

The net yield per unit for the year ended 31 December 2022 is based on the distribution per unit for the year ended 31 December 2022 over the last trade price for the period.

PORTFOLIO MAP & SUMMARY

物業組合分佈及總覽



Portfolio Summary 物業總覽

As at 30 June 2023, 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.

於2023年6月30日，置富產業信託現時持有16個香港私人住宅屋苑零售物業及1個新加坡社區零售物業，物業組合包括300萬平方呎零售空間及2,793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	
HONG KONG PORTFOLIO		香港物業組合				
1	Fortune City One	置富第一城	414,469	8,105	98.7%	653
2	+W00	+W00嘉湖	665,244	7,895	89.1%	622
3	Ma On Shan Plaza	馬鞍山廣場	310,084	5,613	99.2%	290
4	Metro Town	都會駅	180,822	3,606	100%	74
5	Fortune Metropolis	置富都會	332,168	2,379	82.9%	179
6	Laguna Plaza	麗港城商場	163,203	2,412	98.9%	150
7	Belvedere Square	麗城薈	276,862	2,465	92.6%	329
8	Waldorf Avenue	華都大道	80,842	1,771	98.8%	73
9	Caribbean Square	映灣薈	63,018	1,212	98.6%	117
10	Jubilee Square	銀禧薈	170,616	931	98.8%	97
11	Tsing Yi Square	青怡薈	78,836	833	100%	27
12	Smartland	荃薈	123,544	781	90.5%	67
13	Centre de Laguna	城中薈	43,000	326	93.8%	N.A.不適用
14	Hampton Loft	凱帆薈	74,734	323	100.0%	35
15	Lido Avenue	麗都大道	9,836	205	100.0%	N.A.不適用
16	Rhine Avenue	海韻大道	14,604	130	100.0%	N.A.不適用
SINGAPORE PORTFOLIO		新加坡物業組合				
17	Stars of Kovan Property	高文之星物業	22,638	550	100%	80
Total/Overall Average		合計／總平均值	3,024,520	39,537	94.1%	2,793



FORTUNE
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