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## **Fortune Real Estate Investment Trust**

*(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*  
**(Stock Code: 778)**

**Managed by**



**ARA Asset Management (Fortune) Limited**

## **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015 AND CLOSURE OF REGISTER OF UNITHOLDERS**

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) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the "Manager"), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the "Trustee"). Subsequent to the conversion of listing status on Singapore Exchange Securities Trading Limited ("SGX-ST") from a primary listing to a secondary listing on 21 December 2015, Fortune REIT is now primary listed on the The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on SGX-ST.

Fortune REIT holds a portfolio of 17 retail properties in Hong Kong, comprising approximately 3.18 million square feet ("Sq.ft.") of retail space and 2,713 car parking lots. The retail properties are Fortune City One, Fortune Kingswood, Ma On Shan Plaza, Metro Town, Fortune Metropolis, Laguna Plaza, Belvedere Square, Waldorf Avenue, Caribbean Square, Provident Square, Jubilee Square, Smartland, Tsing Yi Square, Centre de Laguna, Hampton Loft, Lido Avenue and Rhine Avenue. They house tenants from diverse trade sectors such as supermarkets, food and beverage outlets, banks, real estate agencies, and education providers.

The board of directors of the Manager (the “Board”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2015 (the “Reporting Year” or “FY2015”) as follows:

## FINANCIAL HIGHLIGHTS

	Year ended 31 December 2015	Year ended 31 December 2014	% change
Revenue (HK\$ million)	<b>1,882.1</b>	1,655.8	+13.7%
Net property income (HK\$ million)	<b>1,324.0</b>	1,161.2	+14.0%
Cost-to-revenue ratio	<b>27.5%</b>	27.7%	-0.2%
Income available for distribution (HK\$ million)	<b>884.6</b>	780.8	+13.3%
Distribution per unit (“DPU”) (HK cents)	<b>46.88</b>	41.68	+12.5%
	As at 31 December 2015	As at 31 December 2014	% change
Net asset value per unit (HK\$)	<b>12.76</b>	11.93	+7.0%
Property valuation (HK\$ million)	<b>35,918</b>	32,720	+9.8%
Gearing ratio / Aggregate leverage <sup>1</sup>	<b>30.1%</b>	29.4%	+0.7%

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 31 December 2015, there was no deferred payment.

## DISTRIBUTION

Fortune REIT’s distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (i) 100% of its tax exempt income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses; and (ii) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial year adjusted to eliminate the effects of certain adjustments in accordance with the Code on Real Estate Investment Trusts (the “REIT Code”) published by the Securities and Futures Commission of Hong Kong (“SFC”).

## FINANCIAL REVIEW

Fortune REIT’s FY2015 total revenue and net property income rose by 13.7% and 14.0% year-on-year to HK\$1,882.1 million and HK\$1,324.0 million respectively. The additional income from Laguna Plaza acquired in January 2015, a strong portfolio rental reversion rate of 20.3%, as well as a satisfactory return from the asset enhancement initiatives (“AEIs”) at Belvedere Square have all contributed to Fortune REIT’s improved performance during the Reporting Year.

Total property operating expenses for FY2015 (excluding the Manager’s performance fee) increased by 12.8% year-on-year to HK\$517.1 million. The cost-to-revenue ratio remained stable at 27.5% for the Reporting Year (2014: 27.7%).

Total borrowing costs for the Reporting Year totaled HK\$265.8 million, an increase of 4.8% over the previous year. The increase in borrowing cost was a combined result of: (i) the drawdown of additional loan facilities in January 2015 to finance the acquisition of Laguna Plaza; and (ii) additional interest rate hedging entered in the third quarter of 2015. The rise was offset to some extent by the partial repayment of an existing loan facility with the net sales proceeds from the disposal of Nob Hill Square in April 2015.

Fortune REIT recorded an income available for distribution amounting to HK\$884.6 million for FY2015, an increase of 13.3% from a year earlier. The DPU for the Reporting Year was 46.88 HK cents (2014: 41.68 HK cents), comprising an interim and final DPU of 23.38 HK cents and 23.50 HK cents respectively. The FY2015 DPU was 12.5% higher than that of the previous year, registering a double-digit growth for the fourth consecutive year. Based on the closing unit price of HK\$7.98 in Hong Kong as at 31 December 2015, the FY2015 DPU represented a yield of 5.9%.

### **Final Distribution**

The final DPU of 23.50 HK cents for the six months ended 31 December 2015 will be paid on 29 February 2016 to Unitholders on the registers of Unitholders of Fortune REIT (the "Register") as at 5 February 2016.

### **Asset Recycling to Enhance Return and Unlock Value**

On 9 January 2015, Fortune REIT completed the acquisition of Laguna Plaza for HK\$1,918.5 million at a net property yield of 4.7%. It marks Fortune REIT's debut acquisition from an independent third party and contributed significant growth for Fortune REIT during the Reporting Year. On 2 April 2015, the disposal of Nob Hill Square for HK\$648.0 million was completed at a net property yield of 2.9%. Transacted at 48% over the book value, Nob Hill Square is Fortune REIT's first asset disposal since its establishment. The two transactions, taken as an asset recycling exercise, successfully enhanced return and created value for our unitholders.

### **Proactive and Prudent Capital Management**

In January 2015, Fortune REIT entered into additional loan facilities, comprising a HK\$1,200.0 million 5-year term loan and a HK\$400.0 million 2-year revolving loan facility, to partially finance the acquisition of Laguna Plaza. Subsequently, upon the completion of the disposal of Nob Hill Square in April 2015, the net sales proceeds of HK\$638.0 million were used for a partial repayment of existing facilities.

In December 2015, Fortune REIT entered into two 5-year term loan facilities with an aggregate principal amount of HK\$3,200.0 million, comprising a HK\$2,000.0 million secured term loan facility and a HK\$1,200.0 million unsecured term loan facility (the "New Facilities"). The New Facilities are expected to be drawn around March 2016 to refinance the existing facilities due in April 2016. Through the above-mentioned refinancing, Fortune REIT's overall debt maturity profile has been extended with the next refinancing due only in 2017.

As at 31 December 2015, total committed loan facilities amounted to HK\$11,534.0 million. Fortune REIT closed the Reporting Year with a gearing ratio and an aggregate leverage of 30.1% (31 December 2014: 29.4%) and an average all-in cost of debt of 2.15% (31 December 2014: 2.17%). Fortune REIT's gross liability as a percentage of the gross assets of Fortune REIT increased to 34.3% as at 31 December 2015 (31 December 2014: 33.4%). The net current liabilities as at 31 December 2015 were HK\$4,140.9 million, the majority of which were for the existing facilities of HK\$3,154.0 million expiring in April 2016. Refinancing facilities were already in place for drawdown before the maturity.

The existing facilities are secured over Fortune REIT's 15 investment properties, which carried an aggregate fair value of HK\$33,445.6 million as at 31 December 2015. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,180.3 million as at 31 December 2015, comprising committed undrawn facilities of HK\$470.0 million and cash on hand of HK\$710.3 million. Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitments and working capital requirements.

During the Reporting Year, the Manager has prudently stepped up efforts to mitigate the impact of interest rate fluctuations. As at 31 December 2015, the interest cost for approximately 68% (31 December 2014: 55%) of Fortune REIT's outstanding debt has been hedged through interest rate swaps and caps. The Manager will continue to closely monitor interest rate movements and constantly review Fortune REIT's hedging profile.

Net asset value per unit amounted to HK\$12.76 as at 31 December 2015, up 7.0% from HK\$11.93 at the end of 2014, mainly as a result of the increase in valuation of investment properties.

### **Portfolio Valuation**

As at 31 December 2015, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$35,918.0 million by Savills Valuation and Professional Services Limited. This represented an increase of 9.8% and 1.9% respectively from the valuation of HK\$32,720.0 million as at 31 December 2014, and HK\$35,238.0 million as at 30 June 2015. As the capitalization rates adopted remain unchanged, the increase in valuation was attributed to an overall improvement in asset performance and the addition of Laguna Plaza, offset by the disposal of Nob Hill Square. The higher valuation resulted in a revaluation gain of HK\$1,626.5 million for the Reporting Year.

## PORTFOLIO HIGHLIGHTS

As at 31 December 2015, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.18 million sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	7,422	99.3%	653
Fortune Kingswood	665,244	6,828	99.6%	622
Ma On Shan Plaza	310,084	5,119	100.0%	290
Metro Town	180,822	3,294	100.0%	74
Fortune Metropolis	332,168	2,410	98.4%	179
Laguna Plaza	163,203	2,214	98.7%	150
Belvedere Square	276,862	2,107	97.4%	329
Waldorf Avenue	80,842	1,594	99.5%	73
Caribbean Square	63,018	969	100.0%	117
Provident Square	180,238	961	91.7%	N.A
Jubilee Square	170,616	872	99.6%	97
Smartland	123,544	684	99.5%	67
Tsing Yi Square	78,836	604	100.0%	27
Centre de Laguna	43,000	271	99.4%	N.A
Hampton Loft	74,734	268	100.0%	35
Lido Avenue	9,836	186	100.0%	N.A
Rhine Avenue	14,604	115	100.0%	N.A
<b>Total / Overall average</b>	<b>3,182,120</b>	<b>35,918</b>	<b>98.8%</b>	<b>2,713</b>

## OPERATIONS REVIEW

Fortune REIT's portfolio of 17 private housing estate retail properties continued to grow in a sustainable way despite the decline in overall Hong Kong retail sales during the Reporting Year. The portfolio delivered a shining report card of operational performance in FY2015. Portfolio rental reversion for renewals in FY2015 was maintained at a high level of 20.3%. Occupancy rate improved to 98.8% (31 December 2014: 97.3%) while passing rent was HK\$40.0 per sq.ft. as at 31 December 2015, up by 6.8% year-on-year for the original portfolio excluding Laguna Plaza and Nob Hill Square.

Fortune REIT's portfolio currently has a total of 1,396 tenants, of which the top ten tenants together contributed approximately 26.1% of the portfolio's gross rental income and occupied approximately 21.7% of total GRA as at 31 December 2015. Tenants in the non-discretionary retail sectors such as supermarkets, food and beverages as well as services and education made up approximately 60% of GRA, signifying the strong resilience of Fortune REIT against cyclical changes in the macroeconomic environment.

The Manager will continue to focus on retaining quality tenants, securing an early commitment for expiring leases, as well as upgrading the tenant mix when opportunities arise.

## **Asset Optimization through Enhancement Initiatives**

The AEs at Belvedere Square were successfully completed in phases during the Reporting Year. This HK\$80 million AEI project has yielded a satisfactory return on investment (“ROI”) of 20.3%, once again exceeding the target ROI of 15%. The entire ground floor was fully upgraded with a more efficient shopping layout, a revitalized wet market and an enhanced tenant mix. The passing rent of Belvedere Square increased by 12.8% year-on-year as a result. The successful completion of the AEs at Belvedere Square strongly testifies once again to our constant efforts in optimizing Fortune REIT’s portfolio.

Looking ahead, the Manager plans to embark on the next major AEs project at Fortune Kingswood with an objective to reposition the mall into a regional shopping and entertainment attraction, serving a wider spectrum of shoppers from beyond its immediate proximity.

## **OUTLOOK**

Hong Kong’s economic growth slowed down during the third quarter of 2015, with GDP up by only 2.3% year-on-year, less than the expansion of 2.8% and 2.4% year-on-year of the preceding two quarters. On the other hand, while the growth in private consumption has also declined, its 4.3% year-on-year increase suggested the relative resilience of domestic demand as backed by full employment and rising income. The sound domestic fundamentals have been cushioning the overall economy against the weakness in external trade. The value of total retail sales in Hong Kong decreased by 3.1% year-on-year in the first eleven months of 2015, largely attributable to the sharp decline in tourist spending on luxury items. Local consumption is expected to be the main support for the retail market in the near term.

The Manager remains mindful of the economic uncertainties associated with factors such as the softening of retail sentiment as well as the gloomy outlook on global economic growth. These factors are compounded by the anticipation of continued interest rate hikes. Nevertheless, Fortune REIT’s portfolio of private housing estate retail properties, which caters mainly to day-to-day shopping needs, tends to maintain a more resilient performance when compared to the overall fluctuations of market and economic conditions.

As there could be continuing pressure in this year on certain costs such as rising wages and other external factors, the Manager will closely monitor the operating expenses. Cost containment measures such as implementing energy-saving measures and reduction in wastage in operations and facilities will be continued in order to mitigate the impact from increased costs.

Looking ahead, the Manager is dedicated to drive revenue growth by implementing effective leasing and tenant repositioning strategy as well as AEs, while remaining closely attentive to investment opportunities for Fortune REIT’s long-term sustainable development.

## **EMPLOYEES**

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

## **NEW UNITS ISSUED**

As at 31 December 2015, the total number of issued units of Fortune REIT was 1,886,372,042. As compared with the position as at 31 December 2014, a total of 13,325,748 new units were issued during the Reporting Year in the following manner:

- On 2 January 2015, 3,243,664 new units were issued to the Manager at the price of HK\$7.6277 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$24.7 million payable by Fortune REIT for the period from 1 October 2014 to 31 December 2014.
- On 2 April 2015, 3,128,838 new units were issued to the Manager at the price of HK\$8.1893 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$25.6 million payable by Fortune REIT for the period from 1 January 2015 to 31 March 2015.
- On 3 July 2015, 3,386,932 new units were issued to the Manager at the price of HK\$7.7817 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$26.4 million payable by Fortune REIT for the period from 1 April 2015 to 30 June 2015.
- On 5 October 2015, 3,566,314 new units were issued to the Manager at the price of HK\$7.4715 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$26.6 million payable by Fortune REIT for the period from 1 July 2015 to 30 September 2015.

## **REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Year, other than the disposal of 8,912,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

## **CORPORATE GOVERNANCE**

With the objectives 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 (“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 primary listed on SEHK and secondary listed on SGX-ST. On 21 December 2015, Fortune REIT converted its listing status from a primary listing to a secondary listing on the Main Board of SGX-ST. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Singapore and Hong Kong, including the Code on Collective Investment Schemes and Guidelines issued by the Monetary Authority of Singapore, the relevant listing rules contained in the listing manual of the SGX-ST and the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK, where applicable.

The Manager confirms that it has in material terms complied with the provisions of the Compliance Manual and has adhered to the principles and guidelines set out in the Singapore Code of Corporate Governance 2012 and the CG Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Year.

## **DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS**

The Register will be closed on Friday, 5 February 2016, during which day no transfer of units on the Register will be effected. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with (a) the Singapore unit registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 (for Singapore unitholders) not later than 5:00 p.m. on Thursday, 4 February 2016 or (b) the Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Thursday, 4 February 2016. The payment of final distribution will be made to unitholders on Monday, 29 February 2016.

## **SINGAPORE INCOME TAX ON FORTUNE REIT DISTRIBUTION**

The final distribution is made out of Fortune REIT’s tax exempt income. Singapore unitholders receiving distributions will not be assessable to Singapore income tax on the distributions received.



## REVIEW OF FINAL RESULTS

The final results of Fortune REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager.

## PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 31 December 2015.

## ISSUANCE OF ANNUAL REPORT 2015

The 2015 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2016.

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

Hong Kong, 21 January 2016

*The Directors of the Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Chiu Yu, Justina and Mr. Ang Meng Huat, Anthony as Executive Directors; Mr. Lim Lee Meng, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Dr. Lan Hong Tsung, David as Independent Non-executive Directors.*

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	5	1,882,148	1,655,774
Property operating expenses		<u>(517,076)</u>	<u>(458,414)</u>
<b>Net property income (before manager's performance fee)</b>		1,365,072	1,197,360
Manager's performance fee		<u>(41,045)</u>	<u>(36,136)</u>
<b>Net property income</b>		<b>1,324,027</b>	<b>1,161,224</b>
Manager's base fee		(105,785)	(92,891)
Foreign currency exchange loss		(468)	(315)
Interest income		3,467	9,662
Trust expenses	6	(42,379)	(14,926)
Change in fair value of investment properties		1,626,470	3,321,779
Change in fair value of derivative financial instruments		(75,500)	(29,233)
Gain on disposal of a property company		218,598	-
Borrowing costs	7	<u>(265,784)</u>	<u>(253,498)</u>
<b>Profit before taxation and transactions with unitholders</b>	8	<b>2,682,646</b>	<b>4,101,802</b>
Income tax expense	9	<u>(196,460)</u>	<u>(170,896)</u>
<b>Profit for the year, before transactions with unitholders</b>		<b>2,486,186</b>	<b>3,930,906</b>
Distributions to unitholders		<u>(884,570)</u>	<u>(780,770)</u>
<b>Profit for the year, after transactions with unitholders</b>		<b>1,601,616</b>	<b>3,150,136</b>
<b>Other comprehensive income item - that may be reclassified subsequently to profit or loss</b>			
Net gain on derivative financial instruments under cash flow hedge		<u>23,386</u>	<u>23,183</u>
<b>Total comprehensive income for the year</b>		<b><u>1,625,002</u></b>	<b><u>3,173,319</u></b>
<b>Income available for distribution to unitholders</b>		<b><u>884,570</u></b>	<b><u>780,770</u></b>
Basic earnings per unit (HK cents)	10	<u>132.00</u>	<u>210.19</u>

# Distribution Statement

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>		<b>2,486,186</b>	<b>3,930,906</b>
<b>Adjustments:</b>			
Manager's base fee		105,785	92,891
Acquisition fee		19,185	-
Change in fair value of investment properties		(1,626,470)	(3,321,779)
Change in fair value of derivative financial instruments		75,500	29,233
Gain on disposal of a property company		(218,598)	-
Front end fees		26,227	38,412
Foreign currency exchange loss		468	315
Other non-tax deductible trust expenses		16,287	10,792
<b>Income available for distribution</b>	(i)	<b>884,570</b>	<b>780,770</b>
<b>Distribution to unitholders</b>			
23.38 HK cents (2014: 20.88 HK cents) per unit for the six months ended 30 June	(ii)	440,258	390,454
23.50 HK cents (2014: 20.80 HK cents) per unit for the six months ended 31 December	(iii)	444,312	390,316
<b>Income available for distribution</b>		<b>884,570</b>	<b>780,770</b>
<b>Distribution per unit (HK cents)</b>		<b>46.88</b>	<b>41.68</b>

## Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 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 REIT Code issued by the SFC.
- (ii) The distribution per unit of 23.38 HK cents for the six months ended 30 June 2015 (six months ended 30 June 2014: 20.88 HK cents) is calculated based on the income available for distribution for the period of HK\$440.3 million (six months ended 30 June 2014: HK\$390.5 million) over 1,882,805,728 units (30 June 2014: 1,869,688,995 units), representing issued units as at 30 June 2015 of 1,879,418,796 units (30 June 2014: 1,866,273,811 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 2015 of 3,386,932 units (second quarter of 2014: 3,415,184 units). The distribution amounting to HK\$440.3 million (six months ended 30 June 2014: HK\$390.5 million) was paid on 28 August 2015 (six months ended 30 June 2014: 29 August 2014).

- (iii) The distribution per unit of 23.50 HK cents for the six months ended 31 December 2015 (six months ended 31 December 2014: 20.80 HK cents) is calculated based on the income available for distribution for the period of HK\$444.3 million (six months ended 31 December 2014: HK\$390.3 million) over 1,889,899,303 units (31 December 2014: 1,876,289,958 units), representing issued units as at 31 December 2015 of 1,886,372,042 units (31 December 2014: 1,873,046,294 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the fourth quarter of 2015 of 3,527,261 units (fourth quarter of 2014: 3,243,664 units). The distribution amounting to HK\$444.3 million (six months ended 31 December 2014: HK\$390.3 million) will be paid on 29 February 2016 (six months ended 31 December 2014: 27 February 2015).

# Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	35,918,000	32,720,000
Derivative financial instruments		5,884	32,306
Deposit for acquisition of property companies		-	95,925
<b>Total non-current assets</b>		<b>35,923,884</b>	<b>32,848,231</b>
<b>Current assets</b>			
Trade and other receivables	12	73,441	60,853
Bank balances and cash		710,339	688,407
<b>Total current assets</b>		<b>783,780</b>	<b>749,260</b>
<b>Total assets</b>		<b>36,707,664</b>	<b>33,597,491</b>
<b>Non-current liabilities</b>			
Derivative financial instruments		52,837	33,617
Borrowings	13	7,228,970	8,881,110
Deferred tax liabilities		394,867	378,235
<b>Total non-current liabilities</b>		<b>7,676,674</b>	<b>9,292,962</b>
<b>Current liabilities</b>			
Trade and other payables	14	673,984	588,627
Borrowings	13	3,780,054	940,000
Derivative financial instruments		6,472	-
Distribution payable		444,312	390,316
Provision for taxation		19,844	10,049
<b>Total current liabilities</b>		<b>4,924,666</b>	<b>1,928,992</b>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>12,601,340</b>	<b>11,221,954</b>
<b>Net assets attributable to unitholders</b>		<b>24,106,324</b>	<b>22,375,537</b>
<b>Units in issue and to be issued ('000)</b>	15	<b>1,889,899</b>	<b>1,876,290</b>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	16	<b>12.76</b>	<b>11.93</b>

## Notes

### (1) General

Fortune REIT is a real estate investment trust constituted by a Trust Deed entered into on 4 July 2003 (as amended) between ARA Asset Management (Fortune) Limited, as the Manager of Fortune REIT, and HSBC Institutional Trust Services (Singapore) Limited, as the Trustee of Fortune REIT. Fortune REIT was primary listed on SEHK and secondary listed on SGX-ST.

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

### (2) Basis of preparation

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board (the "IASB"), and are drawn up in accordance with the relevant provisions of the Trust Deed, the relevant requirements of the Code on Collective Investments Schemes issued by the Monetary Authority of Singapore and REIT Code issued by SFC.

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

### (3) Principal Accounting Policies

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

The accounting policies used in these consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014 except as described below.

In the current year, the Group has applied the following amendments to the IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions

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

## New and revised IFRSs issued but not effective

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs IFRS 9	Annual Improvements to IFRSs 2012-2014 Cycle <sup>1</sup> Financial Instruments <sup>2</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to IFRS 11	Accounting for Acquisitions of Interests and Joint Operations <sup>1</sup>
IFRS 14	Regulatory Deferral Accounts <sup>3</sup>
IFRS 15	Revenue from Contracts with Customers <sup>2</sup>
IFRS 16	Leases <sup>4</sup>
Amendments to IAS 1	Disclosure Initiative <sup>1</sup>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants <sup>1</sup>
Amendments to IAS 27	Equity Method in Separate Financial Statements <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for first annual IFRS financial statements beginning on or after 1 January 2016

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>5</sup> Effective for annual periods beginning on or after a date to be determined

## IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test have been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Manager will assess the impact of the application of IFRS 9. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 9 until the Group performs a detailed review.

#### **(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.

The Group owns 17 (2014: 17) properties as at 31 December 2015 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. 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 property or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.



**(5) Revenue**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Base rental	1,362,286	1,191,055
Charge-out collections	333,838	300,182
Other rental	184,246	162,429
Other income	1,778	2,108
	<u>1,882,148</u>	<u>1,655,774</u>

**(6) Trust Expenses**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Trustee's fee	12,241	10,721
Acquisition fee	19,185	-
Expenses for acquisition	4,046	70
Other charges	6,907	4,135
	<u>42,379</u>	<u>14,926</u>

**(7) Borrowing costs**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Interest expense on		
- term loans	149,282	138,515
- revolving loans	21,024	11,064
Equalisation of interest expense through interest rate swaps	58,537	60,793
Commitment fee	1,687	1,688
Front end fees		
- amortisation	33,810	31,662
- written off upon early repayment of term loans	1,444	9,776
	<u>265,784</u>	<u>253,498</u>

**(8) Profit before taxation and transactions with unitholders**

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

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Audit fee	2,182	1,913
Fee to internal auditor	330	330
Valuation fees (paid to principal valuer)	618	777

**(9) Income tax expense**

	2015 HK\$'000	2014 HK\$'000
Current tax:		
- Hong Kong	164,674	138,641
- Singapore	64	423
- Under/(over) provision in prior year	3	(26)
	<u>164,741</u>	<u>139,038</u>
Deferred taxation:		
- Current year	31,742	32,045
- Over provision in prior year	(23)	(187)
	<u>31,719</u>	<u>31,858</u>
	<u>196,460</u>	<u>170,896</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2014: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2014: 17%).

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

**(10) Earnings per unit**

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$2,486.2 million (2014: HK\$3,930.9 million) by the weighted average of 1,883,488,901 (2014: 1,870,211,546) units outstanding during the year.

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

**(11) Investment properties**

	2015 HK\$'000	2014 HK\$'000
Fair value at beginning of the year	32,720,000	29,338,000
During the year:		
Acquisition of an investment property	1,912,254	-
Capital expenditure incurred in upgrading investment properties	97,765	60,221
Disposal of an investment property	(438,489)	-
Change in fair value of investment properties	<u>1,626,470</u>	<u>3,321,779</u>
Fair value at end of the year	<u>35,918,000</u>	<u>32,720,000</u>

**(12) Trade and other receivables**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Trade receivables	39,253	32,390
Other receivables and prepayments		
Security deposits	28,078	23,846
Other receivables	4,288	2,917
Prepayments	1,822	1,700
	<u>34,188</u>	<u>28,463</u>
	<u><u>73,441</u></u>	<u><u>60,853</u></u>

Aging analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
0 - 30 days	38,954	31,495
31 - 90 days	251	885
Over 90 days	48	10
	<u>39,253</u>	<u>32,390</u>

**(13) Borrowings**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Secured term loans	7,845,351	7,334,253
Unsecured term loans	1,618,700	1,618,700
Secured revolving loans	1,470,000	940,000
Unsecured revolving loans	130,000	-
Less: unamortised front end fees	(55,027)	(71,843)
	<u>11,009,024</u>	<u>9,821,110</u>
Carrying amount repayable:		
On demand or within one year	3,780,054	940,000
More than one year, but not more than two years	3,940,320	2,817,265
More than two years, but not more than five years	3,288,650	6,063,845
	<u>11,009,024</u>	<u>9,821,110</u>
Less: Amount due within one year shown under current liabilities	(3,780,054)	(940,000)
	<u><u>7,228,970</u></u>	<u><u>8,881,110</u></u>

**(14) Trade and other payables**

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
<b>Trade payables</b>		
Tenants' deposits		
- Outside parties	453,704	410,128
- Related parties	13,907	10,500
Rental received in advance – Outside parties	22,110	15,995
	<u>489,721</u>	<u>436,623</u>
<b>Other payables</b>		
Trustee's fee	2,081	1,943
Other expenses		
- Outside parties	106,142	69,599
- Related parties	62,103	68,173
- Manager	6,949	6,011
Interest payable	3,420	4,079
Others	3,568	2,199
	<u>184,263</u>	<u>152,004</u>
	<u>673,984</u>	<u>588,627</u>

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

The tenants' deposits to be settled after twelve months from the Reporting Year based on lease term amounted to HK\$299.6 million (2014: HK\$262.3 million) as at 31 December 2015.

**(15) Units in issue and to be issued**

	<i>Number of units</i> <i>'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2014	1,862,534	7,572,356
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2014	<u>10,512</u>	<u>68,149</u>
Balance in issue as at 31 December 2014	1,873,046	7,640,505
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2014	<u>3,244</u>	<u>24,742</u>
Balance as at 31 December 2014	1,876,290	7,665,247
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2015	<u>10,082</u>	<u>78,625</u>
Balance in issue as at 31 December 2015	1,886,372	7,743,872
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2015	<u>3,527</u>	<u>27,160</u>
Balance as at 31 December 2015	<u>1,889,899</u>	<u>7,771,032</u>

**(16) Net asset value per unit attributable to unitholders**

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$24,106.3 million (2014: HK\$22,375.5 million) and the total number of 1,889,899,303 (2014: 1,876,289,958) 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 31 December 2015, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$4,140.9 million (2014: HK\$1,179.7 million).

As at 31 December 2015, the Group's total assets less current liabilities amounted to HK\$31,783.0 million (2014: HK\$31,668.5 million).