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Fortune Real Estate Investment Trust

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

Managed by



ARA Asset Management (Fortune) Limited

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 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"). Fortune REIT is primary listed on The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on Singapore Exchange Securities Trading Limited ("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 is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2017 (the "Reporting Year" or "FY2017") as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2017	Year ended 31 December 2016	% change
Revenue (HK\$ million)	2,030.2	1,975.4	+2.8%
Net property income (HK\$ million)	1,456.7	1,409.8	+3.3%
Cost-to-revenue ratio	26.0%	26.4%	-0.4%
Income available for distribution (HK\$ million)	970.8	935.2	+3.8%
Distribution per unit ("DPU") (HK cents)	50.78	49.23	+3.1%
	As at 31 December 2017	As at 31 December 2016	% change
Net asset value per unit (HK\$)	14.05	12.90	+8.9%
Property valuation (HK\$ million) ¹	38,812	36,368	+6.7%
Gearing ratio / Aggregate leverage ²	27.4%	29.5%	-2.1%

Notes:

1. The amount includes the valuation of Provident Square of HK\$1,061 million which was transferred to assets of a disposal company classified as held for sale (2016: Nil).
2. 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 2017, 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 FY2017 total revenue and net property income rose by 2.8% and 3.3% year-on-year to HK\$2,030.2 million and HK\$1,456.7 million respectively. The growth was attributable to improved occupancy and healthy rental reversion across the portfolio.

Total property operating expenses for FY2017 (excluding the Manager's performance fee) increased by 1.2% year-on-year to HK\$528.3 million. Our continued efforts in energy saving have borne fruit, resulting in reduced electricity consumption and lower utility expenses during the Reporting Year. Cost-to-revenue ratio improved further to 26.0% (2016: 26.4%).

Income available for distribution for FY2017 was HK\$970.8 million, representing a year-on-year increase of 3.8%. The DPU for the Reporting Year was 50.78 HK cents, 3.1% more than that in the previous year (2016: 49.23 HK cents). Comprising an interim and final DPU of 25.53 HK cents and 25.25 HK cents respectively, the FY2017 DPU represented a yield of 5.3% based on the closing unit price of HK\$9.66 in Hong Kong as at 29 December 2017.

Final Distribution

The final DPU of 25.25 HK cents for the six months ended 31 December 2017 will be paid on 28 February 2018 to Unitholders on the registers of Unitholders of Fortune REIT as at 7 February 2018.

Financial Position Remained Strong

In April 2017, we capitalised on the ample liquidity in the Hong Kong banking system and arranged a HK\$1,200.0 million unsecured banking facility with a 5-year tenor to refinance all the debt due in 2018. The effective borrowing cost for the Reporting Year was 2.47% (2016: 2.40%).

As at 31 December 2017, total committed loan facilities amounted to HK\$11,155.1 million. The gearing ratio and aggregate leverage decreased to 27.4% (2016: 29.5%) as a result of a higher property valuation. Fortune REIT's gross liability as a percentage of its gross assets decreased to 32.1% as at 31 December 2017 (2016: 33.8%).

Fortune REIT has obtained both secured and unsecured loan facilities. The secured loan facilities are secured over 5 of its investment properties, which carried an aggregate fair value of HK\$10,283.0 million as at 31 December 2017. While proactively refinancing our debt portfolio with an extended maturity and at lower costs, we have also taken the opportunity to increase the proportion of unsecured debt which would provide more financial flexibility. As at 31 December 2017, approximately 70% of total committed debts were unsecured. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,216.0 million as at 31 December 2017, comprising committed but undrawn facilities of HK\$700.0 million and cash on hand of HK\$516.0 million. Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements.

As at 31 December 2017, the interest cost for approximately 60% (2016: 67%) of Fortune REIT's outstanding debts was hedged through interest rate swaps and caps. The Manager would continue to closely monitor the interest rate movements and optimise Fortune REIT's hedging profile when the opportunity arises.

Net asset value per unit amounted to HK\$14.05 as at 31 December 2017, up 8.9% from HK\$12.90 at the end of 2016.

Portfolio Valuation

As at 31 December 2017, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$38,812 million by Knight Frank Petty Limited. This represents an increase of 6.7% and 3.5% from the valuation as at 31 December 2016 and 30 June 2017 respectively. The higher valuation has resulted in a revaluation gain of HK\$2,391.5 million for the Reporting Year.

PORTFOLIO HIGHLIGHTS

As at 31 December 2017, 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	7,939	98.4%	653
Fortune Kingswood	665,244	7,462	95.8%	622
Ma On Shan Plaza	310,084	5,489	99.0%	290
Metro Town	180,822	3,590	100.0%	74
Fortune Metropolis	332,168	2,557	98.4%	179
Laguna Plaza	163,203	2,450	96.4%	150
Belvedere Square	276,862	2,370	99.6%	329
Waldorf Avenue	80,842	1,651	100.0%	73
Caribbean Square	63,018	1,080	100.0%	117
Provident Square	180,238	1,061	98.1%	N.A
Jubilee Square	170,616	892	97.8%	97
Smartland	123,544	723	97.5%	67
Tsing Yi Square	78,836	656	100.0%	27
Centre de Laguna	43,000	299	98.9%	N.A
Hampton Loft	74,734	283	100.0%	35
Lido Avenue	9,836	190	100.0%	N.A
Rhine Avenue	14,604	120	100.0%	N.A
Total / Overall average	3,182,120	38,812	98.1%	2,713

BUSINESS REVIEW

The Hong Kong retail market has recovered from a three-year contraction, with the retail sales growth staying positive for nine consecutive months since March 2017. The improved retail market conditions have added leasing momentum at Fortune Malls. As at 31 December 2017, the occupancy rate of our portfolio improved to 98.1% (2016: 96.7%). A rental reversion of 12.8% was recorded for renewals during FY2017, accelerated from 10.7% in the first half of 2017. Tenant retention rate remained high at 78%, demonstrating Fortune Malls' proven attractiveness as retailers' preferred place for business.

The portfolio currently has a total of 1,392 tenants, of which the top 10 together contributed approximately 27.8% of the portfolio's gross rental income and occupied approximately 22.4% of total GRA as at 31 December 2017. Tenants in the non-discretionary trades such as supermarkets, food and beverages as well as services and education accounted for approximately 70% of total GRA. We have continued to see healthy leasing demand from these sectors and they remain the core of Fortune Malls driving its long-term resilience, assuring safe navigation through economic cycles. The Manager continues to focus on retaining quality tenants, securing early commitment to renewal before leases expire, as well as optimising the tenant mix at opportune times.

Largest-ever Asset Enhancement Initiatives (“AEIs”) at Fortune Kingswood to Drive Growth

Fortune Kingswood is currently the largest asset of Fortune REIT, contributing 18.5% of portfolio revenue in 2017. The property has been the growth engine for Fortune REIT since its acquisition in 2013. Completed in 1996 but without any renovation since, Fortune Kingswood inevitably has a lot of potential to be unlocked for being the largest shopping mall within Tin Shui Wai. In order to reach out to the expanding catchment in the greater Yuen Long area, the Manager has been planning for a major asset enhancement in the past two years to reposition Fortune Kingswood into a regional shopping and entertainment hub. With a thorough planning and the solid recovery of the retail market seen in recent months, we believe that now is the right time to kick-start the project. The first phase of the project, involving the West Block and a capex of approximately HK\$150 million, is expected to commence in the second quarter of 2018. We are optimistic that Fortune Kingswood will continue to fuel further growth for Fortune REIT's portfolio.

Strengthen Financial Position to Pursue Investment Opportunities

We constantly review our asset portfolio with a view to optimise returns for our Unitholders. On 19 December 2017, Fortune REIT announced the disposal of Provident Square for HK\$2,000 million at 1.8% yield. Tremendous value has been created during the asset's five-year holding period as it was disposed at 3.1 times its purchase price and 88.5% over its appraised value as at 30 November 2017. The disposal is expected to record a gain of HK\$921 million upon completion on 28 February 2018. Proceeds would be used for potential AEIs and acquisition opportunities, in addition to general working capital purposes including debt repayment. With a reduced gearing upon completion, Fortune REIT will have greater financial capability to pursue higher-yielding opportunities going forward.

OUTLOOK

The Hong Kong economy continued to expand notably by 3.6% year-on-year in the third quarter of 2017, following the 4.1% growth in the first half of the year. Private consumption has briskly expanded by 6.7% year-on-year in the third quarter. Stronger economic growth has supported steady local consumption demand while the revival of inbound tourism has further boosted the retail market. Overall, the Hong Kong retail market recorded a growth of 1.8% year-on-year for the first 11 months of 2017. Growth in retail sales has been picking up momentum in recent months, led mainly by the luxury sectors while non-discretionary sectors continued to register a mild increase. The wealth effect from the housing and stock market rally is also likely to have a positive impact on consumer confidence. We believe the Hong Kong retail market is on track for a healthy recovery and Fortune REIT's portfolio is in a good position to benefit from the retail uptrend.

U.S. interest rate normalisation as well as tapering of its Federal Reserve's balance sheet are expected to continue, but in a gradual manner. Our prudent capital management will cushion the resulting potential financial impact as interest cost on 60% of our outstanding debts has been hedged.

Fortune REIT has a proven track record in driving sustainable returns to the Unitholders through different economic cycles. We will continue to build on the strong foundation of our portfolio, execute an effective leasing strategy, add value to our malls through AEs and trade mix optimisation, seek yield-accretive investment opportunities and maintain a healthy capital structure.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2017, the total number of issued units of Fortune REIT was 1,911,276,107. As compared with the position as at 31 December 2016, a total of 12,325,535 new units were issued during the Reporting Year in the following manner:

- On 3 January 2017, 3,177,375 new units were issued to the Manager at the price of HK\$8.6550 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.5 million payable by Fortune REIT for the period from 1 October 2016 to 31 December 2016.
- On 5 April 2017, 3,080,892 new units were issued to the Manager at the price of HK\$8.7320 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$26.9 million payable by Fortune REIT for the period from 1 January 2017 to 31 March 2017.
- On 4 July 2017, 2,964,742 new units were issued to the Manager at the price of HK\$9.4605 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$28.0 million payable by Fortune REIT for the period from 1 April 2017 to 30 June 2017.
- On 4 October 2017, 3,102,526 new units were issued to the Manager at the price of HK\$9.1397 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$28.4 million payable by Fortune REIT for the period from 1 July 2017 to 30 September 2017.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 11,651,000 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 (the “Compliance Manual”) which sets out the key processes, systems, measures, and certain corporate governance policies and procedures applicable for governing the management and operation of Fortune REIT and for compliance with the applicable Hong Kong regulations and legislation.

Fortune REIT is a real estate investment trust primary listed on SEHK and secondary listed on SGX-ST. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong and Singapore, including the code provisions as set out in the Corporate Governance Code (the “CG Code”) of the Rules Governing the Listing of Securities on the SEHK (where applicable) and the Singapore Code of Corporate Governance 2012 (“Singapore Code”).

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 CG Code and the Singapore 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 Wednesday, 7 February 2018, 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 Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Tuesday, 6 February 2018 or (b) 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 Tuesday, 6 February 2018. The payment of final distribution will be made to unitholders on Wednesday, 28 February 2018.

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 2017.

ISSUANCE OF ANNUAL REPORT 2017

The 2017 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2018.

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, 23 January 2018

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	5	2,030,152	1,975,376
Property operating expenses		<u>(528,330)</u>	<u>(521,931)</u>
Net property income (before manager's performance fee)		1,501,822	1,453,445
Manager's performance fee		<u>(45,076)</u>	<u>(43,664)</u>
Net property income		1,456,746	1,409,781
Manager's base fee		(112,654)	(108,796)
Foreign currency exchange gain		397	47
Interest income		706	2,023
Trust expenses	6	(17,109)	(18,665)
Change in fair value of investment properties		2,391,549	377,039
Change in fair value of derivative financial instruments		(31,210)	91,751
Finance costs	7	<u>(268,088)</u>	<u>(283,616)</u>
Profit before taxation and transactions with unitholders	8	3,420,337	1,469,564
Income tax expense	9	<u>(219,347)</u>	<u>(211,651)</u>
Profit for the year, before transactions with unitholders		3,200,990	1,257,913
Distributions to unitholders		<u>(970,760)</u>	<u>(935,191)</u>
Profit for the year, after transactions with unitholders		2,230,230	322,722
Other comprehensive income - item that may be reclassified subsequently to profit or loss			
Net gain on derivative financial instruments under cash flow hedge		<u>-</u>	<u>7,041</u>
Total comprehensive income for the year		<u>2,230,230</u>	<u>329,763</u>
Income available for distribution to unitholders		<u>970,760</u>	<u>935,191</u>
Basic earnings per unit (HK cents)	10	<u>167.70</u>	<u>66.33</u>

Distribution Statement

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Profit for the year, before transactions with unitholders		3,200,990	1,257,913
Adjustments:			
Manager's base fee		112,654	108,796
Change in fair value of investment properties		(2,391,549)	(377,039)
Change in fair value of derivative financial instruments		31,210	(91,751)
Front end fees		4,852	23,090
Foreign currency exchange gain		(397)	(47)
Other non-tax deductible trust expenses		13,000	14,229
Income available for distribution	(i)	970,760	935,191
Distribution to unitholders			
25.53 HK cents (2016: 24.78 HK cents) per unit for the six months ended 30 June	(ii)	487,324	470,008
25.25 HK cents (2016: 24.45 HK cents) per unit for the six months ended 31 December	(iii)	483,436	465,183
Income available for distribution		970,760	935,191
Distribution per unit (HK cents)		50.78	49.23

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 25.53 HK cents for the six months ended 30 June 2017 (six months ended 30 June 2016: 24.78 HK cents) is calculated based on the income available for distribution for the period of HK\$487.3 million (six months ended 30 June 2016: HK\$470.0 million) over 1,908,173,581 units (30 June 2016: 1,896,137,133 units), representing issued units as at 30 June 2017 of 1,905,208,839 units (30 June 2016: 1,893,151,293 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 2017 of 2,964,742 units (second quarter of 2016: 2,985,840 units). The distribution amounting to HK\$487.3 million (six months ended 30 June 2016: HK\$470.0 million) was paid on 29 August 2017 (six months ended 30 June 2016: 29 August 2016).

- (iii) The distribution per unit of 25.25 HK cents for the six months ended 31 December 2017 (six months ended 31 December 2016: 24.45 HK cents) is calculated based on the income available for distribution for the period of HK\$483.4 million (six months ended 31 December 2016: HK\$465.2 million) over 1,914,348,385 units (31 December 2016: 1,902,127,947 units), representing issued units as at 31 December 2017 of 1,911,276,107 units (31 December 2016: 1,898,950,572 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 2017 of 3,072,278 units (fourth quarter of 2016: 3,177,375 units). The distribution amounting to HK\$483.4 million (six months ended 31 December 2016: HK\$465.2 million) will be paid on 28 February 2018 (six months ended 31 December 2016: 1 March 2017).

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	37,751,000	36,368,000
Derivative financial instruments		19,279	50,702
Total non-current assets		37,770,279	36,418,702
Current assets			
Trade and other receivables	12	266,958	67,280
Bank balances and cash		516,036	585,217
Derivative financial instruments		668	-
		783,662	652,497
Assets of a disposal company classified as held for sale	13	1,068,187	-
Total current assets		1,851,849	652,497
Total assets		39,622,128	37,071,199
Non-current liabilities			
Derivative financial instruments		5,790	4,965
Borrowings	14	9,286,423	10,229,967
Deferred tax liabilities		444,146	426,802
Total non-current liabilities		9,736,359	10,661,734
Current liabilities			
Trade and other payables	15	967,726	753,220
Borrowings	14	1,496,788	630,000
Derivative financial instruments		-	370
Distribution payable		483,436	465,183
Provision for taxation		11,324	15,809
		2,959,274	1,864,582
Liabilities directly associated with assets of a disposal company classified as held for sale	13	38,728	-
Total current liabilities		2,998,002	1,864,582
Total liabilities, excluding net assets attributable to unitholders		12,734,361	12,526,316
Net assets attributable to unitholders		26,887,767	24,544,883
Units in issue and to be issued ('000)	16	1,914,348	1,902,128
Net asset value per unit attributable to unitholders (HK\$)	17	14.05	12.90

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 undrawn 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 2016 except as described below.

In the current year, the Group has applied the following new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the new and revised 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 which were issued and pertinent to its operations but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and related Amendments ¹
IFRS 16	Leases ²
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IAS 40	Transfers of Investment Property ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

The Manager has reviewed the Group's financial instruments as at 31 December 2017 and anticipated that the application of IFRS 9 is not likely to have material impact on the results and financial position of the Group based on an analysis of the Group's existing business model.

The other new and amendments to IFRSs that are not yet effective are not expected to have any material impact on the Group when they become effective.

(4) Segmental reporting

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

The Group owns 17 (2016: 17) properties as at 31 December 2017 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the property or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

	2017 HK\$'000	2016 HK\$'000
Base rental	1,480,874	1,437,915
Charge-out collections	348,923	342,346
Other rental	196,361	194,282
Other income	3,994	833
	<u>2,030,152</u>	<u>1,975,376</u>

(6) Trust Expenses

	2017 HK\$'000	2016 HK\$'000
Trustee's fee	13,000	12,666
Other charges	4,109	5,999
	<u>17,109</u>	<u>18,665</u>

(7) Finance costs

	2017 HK\$'000	2016 HK\$'000
Interest expense on		
- term loans	181,711	164,628
- revolving loans	2,865	8,517
Equalisation of interest expense through interest rate swaps and caps	48,676	66,881
Commitment fee	3,292	2,956
Front end fees		
- amortisation	24,940	31,859
- written off upon early repayment of loans	6,604	8,775
	<u>268,088</u>	<u>283,616</u>

(8) Profit before taxation and transactions with unitholders

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

	2017 HK\$'000	2016 HK\$'000
Audit fee	1,845	1,934
Fee to internal auditor	330	330
Valuation fees (paid to principal valuer)	640	483
	<u>640</u>	<u>483</u>

(9) Income tax expense

	2017 HK\$'000	2016 HK\$'000
Current tax:		
- Hong Kong	189,036	179,883
- Singapore	-	-
- Over provision in prior year	(431)	(167)
	<u>188,605</u>	<u>179,716</u>
Deferred taxation:		
- Current year	30,711	32,081
- Under/(over) provision in prior year	31	(146)
	<u>30,742</u>	<u>31,935</u>
	<u>219,347</u>	<u>211,651</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2016: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2016: 17%). No provision for Singapore income tax has been made as Fortune REIT had no assessable profit for the year.

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\$3,201.0 million (2016: HK\$1,257.9 million) by the weighted average of 1,908,732,338 (2016: 1,896,574,014) 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

	<i>2017</i> <i>HK\$'000</i>	<i>2016</i> <i>HK\$'000</i>
Fair Value		
At beginning of the year	36,368,000	35,918,000
During the year:		
Capital expenditure incurred in upgrading investment properties	52,451	72,961
Transfer to assets of a disposal company classified as held for sale (Note 13)	(1,061,000)	-
Change in fair value of investment properties	2,391,549	377,039
At end of the year	<u>37,751,000</u>	<u>36,368,000</u>

(12) Trade and other receivables

	<i>2017</i> <i>HK\$'000</i>	<i>2016</i> <i>HK\$'000</i>
Trade receivables	<u>34,729</u>	<u>33,320</u>
Other receivables and prepayments		
Security deposits	25,669	28,102
Other receivables	204,431	3,840
Prepayments	2,129	2,018
	<u>232,229</u>	<u>33,960</u>
	<u>266,958</u>	<u>67,280</u>

As described in Note 13, a deposit of HK\$200 million in relation to the disposal of all interest in Provident Square held by the Manager's solicitors as stakeholders was included in the Group's other receivables. Ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<i>2017</i> <i>HK\$'000</i>	<i>2016</i> <i>HK\$'000</i>
0 - 30 days	34,548	33,139
31 - 90 days	170	102
Over 90 days	11	79
	<u>34,729</u>	<u>33,320</u>

(13) Assets of a disposal company classified as held for sale and related liabilities

On 19 December 2017, Fortune REIT (through its special purpose vehicle) entered into a share purchase agreement with an independent third party (the "Purchaser") in relation to the disposal of (through the sale of the shares in Maulden Investments Limited, a subsidiary of Fortune REIT) all interests in Provident Square. The consideration payable by the Purchaser shall be the adjusted asset value, being the acquisition value of HK\$2,000 million plus the amount of net current assets or minus the amount of net current liability (as the case may be) of the disposal company as at completion.

An amount of HK\$200 million was received and held by the Manager's solicitors as deposit which was included as deposit receivable for assets classified as held for sale with the corresponding amount included in deposit receivable as set out in note 15. The Manager considered that the assets and liabilities of Maulden Investments Limited should be classified as held for sale as at 31 December 2017 in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations on the basis that the disposal is highly probable and expected to be completed in 2018.

Details of the assets and liabilities of Maulden Investments Limited as at 31 December 2017, which have been classified as "Assets of a disposal company classified as held for sale" and "Liabilities directly associated with assets of a disposal company classified as held for sale", are as follows:

Assets classified as held for sale:

Non-current assets	<i>HK\$'000</i>
Investment properties	1,061,000
Current assets	
Trade and other receivables	4,893
Bank balance and cash	<u>2,294</u>
	<u>7,187</u>
Total assets of a disposal company classified as held for sale	<u><u>1,068,187</u></u>

Liabilities directly associated with assets classified as held for sale:

	<i>HK\$'000</i>
Non-current liabilities	
Deferred tax liabilities	13,398
Current liabilities	
Trade and other payables	<u>25,330</u>
Total liabilities directly associated with assets of a disposal company classified as held for sale	<u><u>38,728</u></u>

Note:

The above amounts do not include amounts due to group companies, which will be repaid by the Purchaser at completion.

(14) Borrowings

	2017 HK\$'000	2016 HK\$'000
Secured term loans	3,100,000	5,321,360
Unsecured term loans	7,355,060	5,000,000
Unsecured revolving loans	400,000	630,000
	<u>10,855,060</u>	<u>10,951,360</u>
Less: unamortised front end fees	(71,849)	(91,393)
	<u>10,783,211</u>	<u>10,859,967</u>
Carrying amount repayable:		
On demand or within one year	1,496,788	630,000
More than one year, but not more than two years	-	1,061,448
More than two years, but not more than five years	9,286,423	9,168,519
	<u>10,783,211</u>	<u>10,859,967</u>
Less: Amount due within one year shown under current liabilities	(1,496,788)	(630,000)
	<u>9,286,423</u>	<u>10,229,967</u>

(15) Trade and other payables

	2017 HK\$'000	2016 HK\$'000
Trade payables		
Tenants' deposits		
- Outside parties	495,950	471,912
- Related parties	15,184	16,587
Rental received in advance – Outside parties	27,247	23,458
	<u>538,381</u>	<u>511,957</u>
Other payables		
Trustee's fee	2,232	2,122
Deposits receivable for assets classified as held for sale (Note 13)	200,000	-
Other expenses		
- Outside parties	120,053	127,667
- Related parties	55,719	60,660
- Manager	45,076	43,664
Interest payable	3,875	3,249
Others	2,390	3,901
	<u>429,345</u>	<u>241,263</u>
	<u>967,726</u>	<u>753,220</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\$308.7 million (2016: HK\$264.2 million) as at 31 December 2017.

(16) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
Balance as at 1 January 2016	1,889,899	7,771,032
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2016	9,052	81,296
Balance in issue as at 31 December 2016	1,898,951	7,852,328
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2016	3,177	27,500
Balance as at 31 December 2016	1,902,128	7,879,828
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2017	9,148	83,306
Balance in issue as at 31 December 2017	1,911,276	7,963,134
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2017	3,072	29,348
Balance as at 31 December 2017	1,914,348	7,992,482

(17) Net asset value per unit attributable to unitholders

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$26,887.8 million (2016: HK\$24,544.9 million) and the total number of 1,914,348,385 (2016: 1,902,127,947) units in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 31 December 2017, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,146.2 million (2016: HK\$1,212.1 million).

As at 31 December 2017, the Group's total assets less current liabilities amounted to HK\$36,624.1 million (2016: HK\$35,206.6 million).