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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**

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND RECORD DATE FOR DISTRIBUTION ENTITLEMENT

Fortune Real Estate Investment Trust ("**Fortune REIT**") is a real estate investment trust constituted by a trust deed ("**Trust Deed**") entered into on 4 July 2003 (as amended, supplemented or otherwise modified from time to time). Fortune REIT is listed on The Stock Exchange of Hong Kong Limited ("**SEHK**").

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

The board of directors of ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the “**Manager**”) is pleased to announce the unaudited results of Fortune REIT for the six months ended 30 June 2023 (the “**Reporting Period**”) as follows:

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:

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

DISTRIBUTION

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

FINANCIAL REVIEW

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, 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 annualized 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 capitalization rate of the Hong Kong assets remained unchanged at 4.3%.

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

PORTFOLIO HIGHLIGHTS

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.

Property	Gross Rentable Area ("GRA") (Sq.ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Hong Kong Portfolio				
Fortune City One	414,469	8,105	98.7%	653
+WOO	665,244	7,895	89.1%	622
Ma On Shan Plaza	310,084	5,613	99.2%	290
Metro Town	180,822	3,606	100%	74
Fortune Metropolis	332,168	2,379	82.9%	179
Laguna Plaza	163,203	2,412	98.9%	150
Belvedere Square	276,862	2,465	92.6%	329
Waldorf Avenue	80,842	1,771	98.8%	73
Caribbean Square	63,018	1,212	98.6%	117
Jubilee Square	170,616	931	98.8%	97
Smartland	123,544	781	90.5%	67
Tsing Yi Square	78,836	833	100%	27
Centre de Laguna	43,000	326	93.8%	N.A
Hampton Loft	74,734	323	100%	35
Lido Avenue	9,836	205	100%	N.A
Rhine Avenue	14,604	130	100%	N.A
Singapore Portfolio				
Stars of Kovan Property	22,638	550	100%	80
Total / Overall average	3,024,520	39,537	94.1%	2,793

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 neighborhood 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 AEs 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 programs 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 program 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 AEs on track for completion in 2024

The HK\$300 million AEs 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 modernized 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 AEs 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 travelers. 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 neighborhood malls with a primary focus on an essentials-focused trade mix, we remain cautiously optimistic about the long-term prospects of Fortune REIT portfolio.

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

During the Reporting Period, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

CORPORATE GOVERNANCE

With the objective of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Fortune REIT in a transparent manner and with built-in checks and balances. The Manager has adopted a compliance manual (the "**Compliance Manual**") which sets out the key processes, systems, measures, and certain corporate governance policies and procedures applicable for governing the management and operation of Fortune REIT and for compliance with the applicable Hong Kong regulations and legislation.

Fortune REIT is a real estate investment trust listed on SEHK. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong, including the mandatory disclosure requirement and code provisions as set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK.

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

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the interim distribution, the record date will be on Thursday, 24 August 2023. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with the unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 24 August 2023. The payment of interim distribution will be made to unitholders on Friday, 22 September 2023.

REVIEW OF INTERIM RESULTS

The unaudited interim results of Fortune REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager, and approved by the board of directors of the Manager on 8 August 2023. The unaudited interim results have also been reviewed by Fortune REIT's auditors in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 30 June 2023.

ISSUANCE OF 2023 INTERIM REPORT

The 2023 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders and published on the websites of SEHK and Fortune REIT on or before 30 September 2023.

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

Hong Kong, 8 August 2023

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

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	2022
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	908,688	867,499
Property operating expenses	6	<u>(215,999)</u>	<u>(213,869)</u>
Net property income before manager's performance fee		692,689	653,630
Manager's performance fee		<u>(20,784)</u>	<u>(19,609)</u>
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	<u>(207,453)</u>	<u>294,264</u>
Profit before taxation and transactions with unitholders	8	366,921	484,564
Income tax expense	9	<u>(87,788)</u>	<u>(95,543)</u>
Profit for the period, before transactions with unitholders		279,133	389,021
Distributions to unitholders		<u>(447,658)</u>	<u>(456,911)</u>
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		<u>(58)</u>	<u>-</u>
Net comprehensive expenses for the period		<u>(168,583)</u>	<u>(67,890)</u>
Basic earnings per unit (HK cents)	10	<u>13.97</u>	<u>19.66</u>

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		34,698	382,623
Change in fair value of derivative financial instruments		55,216	(393,276)
Non-cash finance costs		11,476	3,983
Deferred tax		8,333	16,021
Income available for distribution	(i)	447,658	456,911
Percentage of distributable to unitholders		100%	100%
Distribution to unitholders	(ii)	447,658	456,911
Distribution per unit (HK cents)	(iii)	22.36	23.05

Notes:

- (i) The distribution policy of Fortune REIT is to distribute not less than 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the Trust Deed.
- (ii) Distribution amount to unitholders of HK\$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		435,481	509,503
Total non-current assets		39,972,507	40,012,773
Current assets			
Derivative financial instruments		18,806	-
Trade and other receivables	12	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	13	7,489,978	7,480,197
Deferred tax liabilities		692,054	683,721
Total non-current liabilities		8,182,032	8,163,918
Current liabilities			
Trade and other payables	14	703,598	706,944
Borrowings	13	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)	15	2,002,210	1,992,462
Net asset value per unit attributable to unitholders (HK\$)	16	14.39	14.52

Notes

(1) General

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and listed on The Stock Exchange of Hong Kong Limited (“**SEHK**”). Fortune REIT is governed by the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong (the “**SFC**”) and the Trust Deed made between ARA Asset Management (Fortune) Limited (the “**Manager**”) and HSBC Institutional Trust Services (Asia) Limited (the “**Trustee**”).

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

(2) Basis of preparation

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

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

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

(3) Principal Accounting Policies

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

Other than the additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 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 position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

(4) Segmental reporting

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

As at 30 June 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) are the measures reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

For the six months ended 30 June 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 million (31 December 2022: HK\$38,955 million) are located in Hong Kong and HK\$550.0 million (31 December 2022: HK\$548.3 million) in Singapore.

(5) Revenue

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

(6) Property operating expenses

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
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
	<u>215,999</u>	<u>213,869</u>

(7) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
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
	<u>152,237</u>	<u>99,012</u>
Change in fair value of derivative financial instruments	55,216	(393,276)
	<u>207,453</u>	<u>(294,264)</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,504	1,464
Fees to internal auditor	225	175
(Decrease) increase in allowance for credit losses	(584)	3,092
Valuation fees (paid to principal valuer)	154	154
	<u>1,504</u>	<u>1,504</u>

(9) Income tax expense

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

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%). 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.

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

(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

	<i>Fair Value</i>
	<i>HK\$'000</i>
	<i>(Unaudited)</i>
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	<u>1,756</u>
As at 30 June 2023	<u>39,537,026</u>

(12) Trade and other receivables

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

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

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

(13) Borrowings

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

(14) Trade and other payables

	<i>30 June 2023 HK\$'000 (Unaudited)</i>	<i>31 December 2022 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits	475,914	474,150
Rental received in advance	44,710	42,973
	<u>520,624</u>	<u>517,123</u>
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
	<u>182,974</u>	<u>189,821</u>
	<u>703,598</u>	<u>706,944</u>

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

The tenants' deposits to be settled after twelve months from the end of the reporting period based on lease term amounted to HK\$265.5 million (31 December 2022: HK\$277.0 million) as at 30 June 2023.

(15) Units in issue and to be issued

	<i>Number of units '000</i>	<i>HK\$'000</i>
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	<u>1,987,625</u>	<u>8,569,185</u>
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2022	4,837	29,871
Balance as at 31 December 2022	<u>1,992,462</u>	<u>8,599,056</u>
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	<u>1,996,969</u>	<u>8,628,286</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2023	5,241	29,572
Balance as at 30 June 2023	<u>2,002,210</u>	<u>8,657,858</u>

(16) 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.

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

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).