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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 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, Tsing Yi Square, Smartland, 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 audited results of Fortune REIT for the year ended 31 December 2023 (the “**Reporting Year**” or “**FY2023**”) as follows:

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2023	Year ended 31 December 2022	% change
Revenue (HK\$ million)	1,785.9	1,764.4	+1.2%
Net property income (HK\$ million)	1,299.4	1,290.2	+0.7%
Income available for distribution (HK\$ million)	810.6	877.3	-7.6%
Distribution to unitholders (HK\$ million)	810.6	877.3	-7.6%
Distribution per unit (“ DPU ”) (HK cents)	40.38	44.15	-8.5%
Cost-to-revenue ratio	25.0%	24.6%	+0.4%
	As at 31 December 2023	As at 31 December 2022	% change
Property valuation (HK\$ million)	38,997	39,503	-1.3%
Net asset value per unit (HK\$)	13.94	14.52	-4.0%
Gearing ratio ^[1]	24.6%	23.9%	+0.7%

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 re-opening of Hong Kong and its gradual return to normalcy and growth.

Fortune REIT’s gross revenue increased by 1.2% year-on-year to HK\$1,785.9 million for the year ended 31 December 2023 (2022: HK\$1,764.4 million), with all revenue streams including base rent, turnover rent, car park income and charge-out income, recording growth. The higher revenue was also partly attributable to the absence of rental rebates in the Reporting Year, while rental concessions were offered to assist tenants during the fifth wave of the COVID-19 pandemic in 2022.

Total property operating expenses (excluding the Manager’s performance fee) increased by 2.8% year-on-year to HK\$446.2 million (2022: HK\$434.2 million). The increase was mainly attributable to higher building management expenses, utilities costs and government rents and rates. However, the increase was partially offset by savings in leasing commissions as well as advertising and promotion expenses. Accordingly, net property income for the Reporting Year increased by 0.7% year-on-year to HK\$1,299.4 million (2022: HK\$1,290.2 million) and the cost-to-revenue ratio was 25.0% (2022: 24.6%).

Despite more than 60% of our loans were hedged to fixed rates, finance costs increased significantly as interest rates continued its steep ascent in 2023. In addition, debt levels increased as new financing was obtained to fund the Singapore acquisition in September 2022 and for funding asset enhancement initiatives (the “**AEIs**”). As a result, finance costs (excluding changes in fair value of

derivative financial instruments) increased by 45.3% year-on-year to HK\$351.1 million (2022: HK\$241.6 million). The effective borrowing cost for the Reporting Year was 3.6% (2022: 2.7%).

Income available for distribution for the Reporting Year amounted to HK\$810.6 million (2022: HK\$877.3 million). With a distribution payout ratio of 100% for the Reporting Year (2022: 100%), the full year DPU was 40.38 HK cents (2022: 44.15 HK cents), representing a 8.5% decline year-on-year. Based on the closing unit price of HK\$4.96 as at 29 December 2023, the 2023 full year DPU implied a distribution yield of 8.1%.

The final DPU of 18.02 HK cents for the year ended 31 December 2023 will be paid on 19 April 2024 to Unitholders whose names appear on the register of Unitholders of Fortune REIT as at 26 March 2024.

Capital Management

Fortune REIT's balance sheet remains sound and robust. As at 31 December 2023, the gearing ratio was maintained at a healthy level of 24.6% (2022: 23.9%), while gross liability as a percentage of gross assets was 28.9% (2022: 28.3%). Approximately 62% of total debt has been hedged to fixed rates, partially mitigating the impact of rising interest rates.

As at 31 December 2023, total loan facilities drawn down amounted to HK\$9,715.9 million (2022: HK\$9,636.7 million). During the Reporting Year, Fortune REIT secured a sustainability-linked facility with an aggregated amount of HK\$1,800.0 million (the "**2023 Sustainability-Linked Facility**") for the refinancing of the HK\$1,500.0 million loan due in October 2023 and for general corporate purposes. Fortune REIT has no refinancing needs until late 2025.

Fortune REIT possesses sufficient financial resources to meet its financial commitments and working capital requirements. As at 31 December 2023, Fortune REIT's available liquidity amounted to HK\$858.4 million (2022: HK\$447.3 million), comprising committed but undrawn bank facilities of HK\$751.7 million (2022: HK\$240.4 million) and bank deposits of HK\$106.7 million (2022: HK\$206.9 million). In addition, as at 31 December 2023, an aggregated uncommitted revolving loan facilities of HK\$220.0 million remained undrawn.

Net asset value per unit amounted to HK\$13.94 as at 31 December 2023 (2022: HK\$14.52).

Portfolio Valuation

As at 31 December 2023, the total value of Fortune REIT's investment properties remained stable at HK\$38,997 million (2022: HK\$39,503 million), reflecting the steady 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, which is cross-referenced with a direct comparison approach.

PORTFOLIO HIGHLIGHTS

As at 31 December 2023, Fortune REIT owns a geographically diverse portfolio of 16 and 1 retail properties in Hong Kong and Singapore respectively, comprising approximately 3.0 million sq.ft. of retail space and 2,793 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	7,974	97.8%	653
+WOO	665,244	7,638	91.8%	622
Ma On Shan Plaza	310,084	5,593	98.7%	290
Metro Town	180,822	3,549	100%	74
Fortune Metropolis	332,168	2,373	86.9%	179
Laguna Plaza	163,203	2,383	98.3%	150
Belvedere Square	276,862	2,462	92.6%	329
Waldorf Avenue	80,842	1,735	100%	73
Caribbean Square	63,018	1,204	98.2%	117
Jubilee Square	170,616	932	97.4%	97
Tsing Yi Square	78,836	830	97.1%	27
Smartland	123,544	789	81.1%	67
Centre de Laguna	43,000	315	93.8%	N.A
Hampton Loft	74,734	326	100%	35
Lido Avenue	9,836	206	100%	N.A
Rhine Avenue	14,604	130	100%	N.A
Stars of Kovan Property	22,638	558	100%	80
Total / Overall average	3,024,520	38,997	94.4%	2,793

BUSINESS REVIEW

Hong Kong's retail market has not fully recovered to pre-pandemic levels as the recovery has been softer than anticipated. While total retail sales in 2023 increased by 16.2% year-on-year, its level in the fourth quarter of 2023 was still 15.8% lower than the same period in 2018. In particular, sales of discretionary items (department stores' commodities and jewellery, watches and clocks, and valuable gifts) in 2023 still fell short of 2018 level by an average of 31% as the weak Renminbi undermined the purchasing power of Mainland visitors in Hong Kong. The recovery in inbound visitors has been less than ideal as the number of inbound visitors in the fourth quarter of 2023 has only returned to 57.8% of the same period in 2018. On the other hand, the spending leakage as a result of northbound travel to the nearby Mainland cities also poses a threat to the local retail market.

Fortune REIT's portfolio of neighborhood malls is strategically focused on essential trades and has consistently proven its resilience across economic cycles. Approximately 71% of our tenants are convenience and non-discretionary retailers or operators.

With the gradual recovery of the retail market in Hong Kong, Fortune Malls have seen an encouraging pick-up in leasing inquiries and momentum. In 2023, we signed up leases, including new lettings and renewals, for a total area of 963,200 sq.ft., accounting for 31.8% of our total portfolio area. The tenant retention rate was 83% as Fortune Malls remained tenants' preferred business locations. Despite the ongoing major AEs at our largest property, +WOO, the overall occupancy rate of our portfolio remained healthy and improved to 94.4% as at 31 December 2023 (2022: 93.9%).

In 2023, rental reversion for sectors such as food and beverage, services, and fashion and shoes were generally positive. However, the overall rental reversion for the portfolio ended in negative territory as the rental of kindergartens remained under pressure while real estate agents demanded substantial rent reductions. The ongoing slump of the property market, as characterized by lower property pricing and sluggish transaction volumes, has in turn weakened the rental affordability of real estate agents. As a result, the sector's contribution to total rental declined significantly to 8.0% as at the end of 2023 from 12.4% a year earlier. Although it may not be likely to see a swift rebound for rents in kindergartens and real estate agents, opportunities lie for us to replace them with tenants that provide more attractive offerings.

Customer Engagement Strengthened by Targeted Marketing and Loyalty Program

Fortune Malls launched a number of targeted marketing initiatives, both online and offline, to bring more engaging experiential offerings to customers and increase their loyalty and stickiness. Marketing campaigns such as "Arrival of Fumeancats Meow (黃阿瑪喵運駕到)", "Bling Snow Christmas Kingdom (Bling 雪聖誕王國)", "Fortune Happy Tour Around Hong Kong (「置」Happy 遊香港)", "Shop and Win Reward (購物獎上獎)" and "Foodie Dinosaur's Fantasy Food Tour (吃貨恐龍奇幻美食の旅)" have been successful in driving more foot traffic to our malls, as we witnessed a 11.0% and 12.9% year-on-year growth in footfall and hourly car park income, respectively, in 2023.

The Fortune Malls APP remains an efficient and cost-effective tool for us to engage and connect with our active members. The APP has been continuously upgraded and updated since its launch in 2020. Specifically, the Fortune Malls e-Voucher program on the APP has attracted considerable interest, with over 200 tenants enrolling as they saw the benefits of repeat business. The e-Voucher program has become one of the most attractive rewards on the APP, which in turn has led to more active members and success of the APP loyalty program.

Proactive Asset and Trade Mix Enhancement to Sharpen Our Competitive Edge

Fortune REIT has been successful in delivering a resilient portfolio performance as we always proactively look to future-proof our assets. AEs, as one of our core competencies, help us to unlock the value of aging properties and improve property yields.

In 2023, the HK\$300 million AEs at our flagship mall, +WOO, carried out in three stages, continued to progress well and the last stage is scheduled to complete by mid-2024. Commenced in mid-2021, the project has completed its first two stages and the refurbished zones have boosted footfall and attracted new tenants from a wide range of sectors, including food and beverage, sports and wellness and leisure and entertainment.

We also successfully completed AEs at Metro Town and made important progress on an upcoming project in 2024. In January 2023, we took the opportunity to reconfigure a vacant 8,500 sq.ft. kindergarten unit, along with two adjacent shops, into three brand new stores at Metro Town, offering our customers a greater selection of food and beverage and homeware. The AEs have resulted in increased foot traffic and generated a satisfactory 11% return on investment. Meanwhile, AEs are expected to commence at Fortune Metropolis in the fourth quarter of 2024 over three stages, with a capital expenditure budget of approximately HK\$200 million.

Besides upgrading building facilities and reconfiguring spaces, we are also constantly enhancing shoppers' experience by introducing new brands and services. Ensuring that our trade mix remains relevant to evolving consumer tastes is more important than ever, as Hong Kong residents are increasingly attracted to the shopping and dining options in the nearby Mainland cities while on the other hand, Mainland visitors are now looking for more immersive travel experiences in Hong Kong.

Food and beverage, which accounts for approximately 29% of our total rental revenue, is one of the biggest draws for Fortune Malls, and is always an important part of our leasing strategy to bring in diverse food and beverage offerings to delight our customers. In 2023, Fortune Malls welcomed the first entry of some very popular restaurants such as Sushiro, Yakiniku Like, Wagyu More and Mizi. We have also added an experiential element to Fortune Malls by expanding our lifestyle offerings. In this regard, we welcomed MG Motors (Hong Kong) as our first new energy vehicle (“NEV”) tenant, which opened a showroom at Fortune Metropolis in December 2023 after organizing more than 20 pop-up car shows at Fortune City One, Fortune Metropolis, +WOO and Laguna Plaza throughout the Reporting Year. In future, as more Chinese dining and NEV brands enter and expand their businesses in Hong Kong, they could bring potential new demand for mall leasing that Fortune Malls can tap into.

Progressing on Our Green Journey

In 2021, Fortune REIT became the first REIT in Hong Kong to achieve the highest five-star rating in the Global Real Estate Sustainability Benchmark (GRESB) and has maintained the highest rating for three consecutive years. In 2023, Fortune REIT again became the first REIT in Hong Kong to set science-based targets for the reduction in greenhouse gas emissions and has set new long-term 2035 environmental performance targets. During the Reporting Year, Fortune REIT continued to make steady progress on the identified sustainability priorities to strengthen its competitiveness and stay ahead of the industry.

With the addition of the 2023 Sustainability-Linked Facilities, Fortune REIT's sustainability-linked loans amounted to HK\$6,087.7 million, representing 62% of total loans as at 31 December 2023. While all of our Hong Kong assets have already been certified as green buildings in 2022, we raised the bar and achieved a comprehensive rating upgrade from the Building Environmental Assessment Method Plus in 2023. Notably, all 16 malls in Hong Kong received the highest rating of Excellent in the Selective Scheme (Management Aspect), while two flagship malls, namely Ma On Shan Plaza and Fortune Metropolis, qualified for the highest rating of Platinum in the Comprehensive Scheme.

Progress was also made in supporting green mobility and providing green energy. We have installed electric vehicle charging points at three Fortune Malls during the Reporting Year, and the number of charging stations is set to double in 2024. Besides, as we continued to expand the installation of solar panels, the coverage has increased to five Fortune Malls with over 1,000 solar panels.

Fortune Malls - Caring and Supporting the Community for Two Decades

Fortune REIT celebrated the 20th anniversary of its listing in August 2023. A large-scale community campaign, namely "Fortune Malls - Caring and Supporting the Community for Two Decades" was curated to promote greater inclusiveness and a sense of belonging with Fortune Malls' stakeholders in the community. The campaign has reaffirmed our commitment to give back to the society while also delivering economic benefits to our malls as the promotional activities brought in more footfall and business.

OUTLOOK

In 2023, Hong Kong's GDP grew by 3.2% year-on-year, driven largely by the recovery of inbound tourism and private consumption. Ongoing headwinds from weak global demand for goods and tightened monetary conditions have limited the full rebound after the reopening. Hong Kong's economy is expected to remain positive in 2024, albeit at a slower pace, supported by resilient consumption as well as government's continued economic stimulus. Globally, with 2024 being the biggest election year in history, the drag of political uncertainty worldwide on economy remains and may persist throughout the year.

While the Hong Kong retail market continues to recover, inflationary pressure on operating expenses and high interest rates may continue to impact our tenants' business as well as Fortune REIT's performance in the near term. To forge ahead, the Manager remains committed to drive operational efficiency via cost optimization measures, strengthen portfolio competitiveness via AEs, while remain agile to the dynamic operating landscape.

Fortune REIT's solid financial position, as evidenced by its stable cost-to-revenue ratio and healthy gearing ratio, will continue to underpin its long-term resilience.

EMPLOYEES

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

NEW UNITS ISSUED

As at 31 December 2023, the total number of issued units of Fortune REIT was 2,008,652,759. A total of 21,027,547 new units were issued during the Reporting Year in the following manner:

- On 6 January 2023, 4,836,620 new units were issued to the Manager at a price of HK\$6.176 per unit (being ascribed in the Trust Deed) as payment in full for 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 a price of HK\$6.485 per unit (being ascribed in the Trust Deed) as payment in full for 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.
- On 7 July 2023, 5,241,320 new units were issued to the Manager at a price of HK\$5.642 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$29.6 million payable by Fortune REIT for the period from 1 April 2023 to 30 June 2023.
- On 10 October 2023, 6,442,257 new units were issued to the Manager at a price of HK\$4.64 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$29.9 million payable by Fortune REIT for the period from 1 July 2023 to 30 September 2023.

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

CORPORATE GOVERNANCE

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

Fortune REIT is a real estate investment trust listed on SEHK. Fortune REIT and/or the Manager are subject to the applicable laws, rules and regulations in Hong Kong, including the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix C1 (formerly 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 Year.

RECORD DATE FOR DISTRIBUTION ENTITLEMENT

For the purpose of determining the distribution entitlement for the final distribution, the record date will be on Tuesday, 26 March 2024. In order to qualify for the final 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 Tuesday, 26 March 2024. The payment of final distribution will be made to unitholders on Friday, 19 April 2024.

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, and approved by the Board on 5 March 2024.

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 2023.

ISSUANCE OF ANNUAL REPORT 2023

The 2023 Annual Report of Fortune REIT for the Reporting Year will be dispatched to unitholders and published on the websites of SEHK and Fortune REIT on or before 30 April 2024.

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, 5 March 2024

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	5	1,785,894	1,764,355
Property operating expenses	6	<u>(446,245)</u>	<u>(434,240)</u>
Net property income before manager's performance fee		1,339,649	1,330,115
Manager's performance fee		<u>(40,200)</u>	<u>(39,904)</u>
Net property income		1,299,449	1,290,211
Manager's base fee		(118,182)	(118,418)
Interest income		355	32
Trust expenses		(8,262)	(5,910)
Change in fair value of investment properties	11	(629,447)	(696,068)
Finance costs	7	<u>(548,068)</u>	<u>307,358</u>
(Loss)/profit before taxation and transactions with unitholders	8	(4,155)	777,205
Income tax expense	9	<u>(150,765)</u>	<u>(274,569)</u>
(Loss)/profit for the year, before transactions with unitholders		(154,920)	502,636
Distributions to unitholders		<u>(810,619)</u>	<u>(877,261)</u>
Loss for the year, after transactions with unitholders		(965,539)	(374,625)
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange difference arising on translation of foreign operation		<u>156</u>	<u>330</u>
Net comprehensive expense for the year		<u>(965,383)</u>	<u>(374,295)</u>
Basic (loss)/earnings per unit (HK cents)	10	<u>(7.73)</u>	<u>25.34</u>

Distribution Statement

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
(Loss)/profit for the year, before transactions with unitholders		(154,920)	502,636
Adjustments:			
Manager's base fee		118,182	118,418
Change in fair value of investment properties		629,447	696,068
Change in fair value of derivative financial instruments		197,009	(548,992)
Non-cash finance costs		17,334	(12,129)
Deferred tax		3,567	121,260
Income available for distribution	(i)	810,619	877,261
Distribution to unitholders			
Interim distribution		447,658	456,911
Final distribution		362,961	420,350
		810,619	877,261
Payout ratio	(ii)	100%	100%
Distribution per unit (HK cents)			
Interim distribution per unit	(iii)	22.36	23.05
Final distribution per unit	(iv)	18.02	21.10
		40.38	44.15

Notes:

- (i) The distribution policy of Fortune REIT is to distribute not less than 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in the Trust Deed.
- (ii) Distribution amount to unitholders of HK\$810.6 million for the year ended 31 December 2023 (2022: HK\$877.3 million), representing a payout ratio of 100% (2022: 100%) of Fortune REIT's income available for distribution of HK\$810.6 million for the year ended 31 December 2023 (2022: HK\$877.3 million).
- (iii) The distribution per unit of 22.36 HK cents for the six months ended 30 June 2023 (six months ended 30 June 2022: 23.05 HK cents) was calculated based on the interim distribution to unitholders amount of HK\$447.7 million (six months ended 30 June 2022: HK\$456.9 million) over 2,002,210,502 units (30 June 2022: 1,982,478,110 units), represented issued units as at 30 June 2023 of 1,996,969,182 units (30 June 2022: 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 2023 of 5,241,320 units (second quarter of 2022: 4,530,315 units). Interim distribution was paid on 22 September 2023 (2022 interim distribution: 16 September 2022).

- (iv) The distribution per unit of 18.02 HK cents for the six months ended 31 December 2023 (six months ended 31 December 2022: 21.10 HK cents) is calculated based on the final distribution to unitholders amount of HK\$363.0 million (six months ended 31 December 2022: HK\$420.4 million) over 2,014,669,562 units (31 December 2022: 1,992,461,832 units), representing issued units as at 31 December 2023 of 2,008,652,759 units (31 December 2022: 1,987,625,212 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 2023 of 6,016,803 units (fourth quarter of 2022: 4,836,620 units). Final distribution will be paid on 19 April 2024 (2022 final distribution: 21 April 2023).

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	38,997,280	39,503,270
Derivative financial instruments		307,884	509,503
Total non-current assets		39,305,164	40,012,773
Current assets			
Trade and other receivables	12	93,806	115,546
Derivative financial instruments		4,610	-
Cash and cash equivalents		106,718	206,864
Total current assets		205,134	322,410
Total assets		39,510,298	40,335,183
Non-current liabilities			
Borrowings	13	8,998,374	7,480,197
Deferred tax liabilities		687,288	683,721
Total non-current liabilities		9,685,662	8,163,918
Current liabilities			
Trade and other payables	14	697,938	706,944
Borrowings	13	660,000	2,097,565
Distribution payable		362,960	420,350
Provision for taxation		23,638	19,105
Total current liabilities		1,744,536	3,243,964
Total liabilities, excluding net assets attributable to unitholders		11,430,198	11,407,882
Net assets attributable to unitholders		28,080,100	28,927,301
Units in issue and to be issued ('000)	15	2,014,670	1,992,462
Net asset value per unit attributable to unitholders (HK\$)	16	13.94	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 REIT Code 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 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 “**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”), and are drawn up in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK, the relevant provisions of the Trust Deed and the REIT Code issued by SFC.

The consolidated financial statements have been prepared on historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values at the end of each reporting period.

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 consolidated financial statements have been prepared on a going concern basis.

(3) Principal Accounting Policies

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the consolidated financial statements for the year ended 31 December 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 year, the Group has applied the following amendments to IFRSs issued by International Accounting Standards Board (“**IASB**”) for the first time, which are pertinent to the Group and is mandatorily effective for annual period beginning on or after 1 January 2023 for the preparation of the Group’s consolidated financial statements.

Amendments to IASs and IFRSs 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 year has had no material impact on the Group's financial position and performance for the current and prior year and/or on the disclosures set out in the consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued and are pertinent to its operations but are not yet effective:

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1	Non-current liabilities with Covenants ¹

¹ Effective for annual periods beginning on or after 1 January 2024.

The Manager anticipates that the application of the above amendments to IFRSs that are not yet effective will have no material impact on the Group's consolidated financial statements in the foreseeable future.

(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 16 (2022: 16) and 1 (2022: 1) properties as at 31 December 2023 which are located 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 year ended 31 December 2023, revenue of HK\$1,766.1 million (2022: HK\$1,759.2 million) is attributable to tenants from the Hong Kong investment properties and HK\$19.8 million (2022: HK\$5.2 million) is attributable to tenants from the Singapore investment property. As at 31 December 2023, investment properties of HK\$38,439.0 million (2022: HK\$38,955.0 million) are located in Hong Kong and HK\$558.3 million (2022: HK\$548.3) in Singapore.

(5) Revenue

	2023 HK\$'000	2022 HK\$'000
Revenue arising from operating leases:		
Fixed	1,406,406	1,405,644
Variable	11,293	8,273
Charge-out collections	243,898	231,953
Car park revenue	122,011	116,420
Other income	2,286	2,065
	<u>1,785,894</u>	<u>1,764,355</u>

(6) Property operating expenses

	2023 HK\$'000	2022 HK\$'000
Advertising and promotion	19,338	21,229
Building management expenses	234,525	222,845
Car park operating expenses	33,276	31,215
Government rents and rates	16,571	13,862
Leasing commission and marketing services fee	23,205	31,358
Legal and other professional fees	6,349	6,902
Property management fee	42,453	42,428
Utilities	49,871	44,795
Others	20,657	19,606
	<u>446,245</u>	<u>434,240</u>

(7) Finance costs

	2023 HK\$'000	2022 HK\$'000
Interest expenses on bank borrowings	510,840	221,501
Amortisation of front-end fees	19,501	18,283
Commitment fee	1,071	852
Interest rate swaps (income) expenses realised	<u>(180,353)</u>	998
	351,059	241,634
Change in fair value of derivative financial instruments	<u>197,009</u>	<u>(548,992)</u>
	<u>548,068</u>	<u>(307,358)</u>

(8) (Loss)/ profit before taxation and transactions with unitholders

(Loss)/ profit before taxation and transactions with unitholders is arrived at after charging/(crediting):

	2023 HK\$'000	2022 HK\$'000
Fees to external auditor	3,132	3,162
Fees to internal auditor	450	450
(Reversal of)/ allowance for credit losses	(855)	319
Valuation fees (paid to principal valuer)	520	520
	<u>520</u>	<u>520</u>

(9) Income tax expense

	2023 HK\$'000	2022 HK\$'000
Current tax:		
- Hong Kong	146,858	154,034
- Under/(over) provision in prior years	340	(725)
	<u>147,198</u>	<u>153,309</u>
Deferred taxation:		
- Current year	4,052	121,260
- Over provision in prior years	(485)	-
	<u>3,567</u>	<u>121,260</u>
	<u>150,765</u>	<u>274,569</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2022: 16.5%) for the year ended 31 December 2023. Fortune REIT's subsidiary in Singapore is subject to Singapore income tax at 17% (2022: 17%) for the year ended 31 December 2023.

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

(10) (Loss)/earnings per unit

Basic loss per unit for the year ended 31 December 2023 is calculated by dividing the loss before transactions with unitholders of HK\$154.9 million by the weighted average of 2,003,830,042 units outstanding during the year.

Basic earnings per unit for the year ended 31 December 2022 was calculated by dividing the profit before transactions with unitholders of HK\$502.6 million by the weighted average of 1,983,619,377 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

	2023 HK\$'000	2022 HK\$'000
Fair Value		
At beginning of year	39,503,270	39,500,000
During the year:		
Capital expenditure incurred in upgrading investment properties	113,447	168,000
Change in fair value of investment properties	(629,447)	(696,068)
Acquisition	-	504,962
Exchange adjustments	10,010	26,376
At end of year	<u>38,997,280</u>	<u>39,503,270</u>

(12) Trade and other receivables

	2023 HK\$'000	2022 HK\$'000
Trade receivables	41,101	65,601
Less: allowance for credit losses	<u>(4,364)</u>	<u>(5,219)</u>
	36,737	60,382
Other receivables and prepayments		
Security deposits	25,847	25,670
Interest receivable	22,476	20,357
Other receivables	1,057	1,034
Prepayments	<u>7,689</u>	<u>8,103</u>
	57,069	55,164
	<u>93,806</u>	<u>115,546</u>

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

	2023 HK\$'000	2022 HK\$'000
0 - 30 days	33,969	51,760
31 - 90 days	1,397	3,967
Over 90 days	<u>1,371</u>	<u>4,655</u>
	36,737	60,382

(13) Borrowings

	2023 HK\$'000	2022 HK\$'000
Unsecured term loans	7,100,000	7,200,000
Unsecured revolving loans	<u>2,615,929</u>	<u>2,436,727</u>
	9,715,929	9,636,727
Less: unamortised front-end fees	<u>(57,555)</u>	<u>(58,965)</u>
	<u>9,658,374</u>	<u>9,577,762</u>

Carrying amount repayable:		
Within one year	660,000	2,097,565
More than one year, but not more than two years	2,490,941	-
More than two years, but not more than five years	6,507,433	7,480,197
	<u>9,658,374</u>	<u>9,577,762</u>
Less: Amount due within one year shown under current liabilities	<u>(660,000)</u>	<u>(2,097,565)</u>
	<u>8,998,374</u>	<u>7,480,197</u>

(14) Trade and other payables

	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
Tenants' deposits	446,326	474,150
Rental received in advance	47,470	42,973
	<u>493,796</u>	<u>517,123</u>
Other payables and accruals		
Trustee's fee	824	616
Manager's performance fee	6,408	6,835
Operating expenses	193,503	176,690
Interest payable	217	266
Others	3,190	5,414
	<u>204,142</u>	<u>189,821</u>
	<u>697,938</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 Reporting Year based on lease term amounted to HK\$274.7 million (2022: HK\$277.0 million) as at 31 December 2023.

(15) Units in issue and to be issued

	<i>Number of units</i>	<i>HK\$'000</i>
	<i>'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 year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2023	16,191	88,694
Balance in issue as at 31 December 2023	2,008,653	8,687,750
 New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2023	6,017	29,488
Balance as at 31 December 2023	2,014,670	8,717,238

(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\$28,080.1 million (2022: HK\$28,927.3 million) and the total number of 2,014,669,562 (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 31 December 2023, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,539.4 million (2022: HK\$2,921.6 million).

As at 31 December 2023, the Group's total assets less current liabilities amounted to HK\$37,765.8 million (2022: HK\$37,091.2 million).