FORTUNE
置富產業信託 REIT

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

ARA Asset Management (Fortune) Limited

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018 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 Limtied ("SGX-ST").

Fortune REIT holds a portfolio of 16 retail properties in Hong Kong, comprising approximately 3.0 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, 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 unaudited results of Fortune REIT for the six months ended 30 June 2018 as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2018	Six months ended 30 June 2017	% change
Revenue (HK$ million)	**978.1**	956.7 [1]	+2.2%
Net property income (HK$ million)	**748.6**	727.0	+3.0%
Cost-to-revenue ratio	**21.1%**	21.7% [1]	-0.6%
Income available for distribution (HK$ million)	**505.2**	487.3	+3.7%
Distribution per unit ("DPU") (HK cents)	**26.34**	25.53	+3.2%
	As at 30 June 2018	As at 31 December 2017	% change
Net asset value per unit (HK$)	**16.09**	14.05	+14.5%
Property valuation (HK$ million)	**40,778**	37,751	+8.0%
Gearing ratio / Aggregate leverage [2]	**22.3%**	27.4%	-5.1%

Notes:

1. "Revenue" and "Property operating expenses" have been reclassified to conform with the current period's presentation.
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 30 June 2018, 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 published by the Securities and Futures Commission of Hong Kong.

FINANCIAL REVIEW

Fortune REIT continued to deliver steady growth in its financial performance for the six months ended 30 June 2018 (the "Reporting Period"). Total revenue and net property income rose by 2.2% and 3.0% year-on-year to HK$978.1 million and HK$748.6 million, respectively. The increase was mainly due to positive rental reversion but partially offset by the divestment of Provident Square. Excluding the effect of Provident Square, total revenue and net property income for the 16 properties increased by 4.2% and 4.6% year-on-year respectively. Total property operating expenses (excluding the Manager's performance fee) decreased by 0.5% year-on-year to HK$206.2 million. Despite the increase in electricity tariffs effective from the beginning of 2018, our continued efforts in energy saving has resulted in reduced utility expenses during the Reporting Period. Under our disciplined cost control, the cost-to-revenue ratio improved further to 21.1% for the Reporting Period (first half of 2017: 21.7%).

Finance costs (excluding change in fair value of derivative financial instruments) decreased by 0.6% year-on-year to HK$131.9 million despite the impact from a higher HIBOR during the Reporting Period as the increase was mostly offset by interest saving resulted from certain loan repayments. The effective borrowing cost for the Reporting Period was 2.72% (First half of 2017: 2.41%) over a reduced amount of total debt.

Income available for distribution for the Reporting Period was HK$505.2 million, representing a year-on-year increase of 3.7%. The DPU for the Reporting Period was 26.34 HK cents, up by 3.2% year-on-year (first half of 2017: 25.53 HK cents). Based on the closing unit price of HK$9.22 as at 29 June 2018 in Hong Kong, the DPU implied an annualised distribution yield of 5.8%.

The interim DPU of 26.34 HK cents for the six months ended 30 June 2018 will be paid on 29 August 2018 to Unitholders on the registers of Unitholders of Fortune REIT as at 14 August 2018.

CAPITAL MANAGEMENT

On 28 February 2018, Fortune REIT has successfully completed the divestment of Provident Square for HK$2.0 billion. HK$1.1 billion from the divestment proceeds has been applied for early repayment of a bank loan due 2019 which has reduced its gearing and eliminated refinancing needs until 2020.

As at 30 June 2018, Fortune REIT's total committed loan facilities amounted to HK$10,055.1 million (31 December 2017: HK$11,155.1 million). The gearing ratio and aggregate leverage decreased to 22.3% (31 December 2017: 27.4%) as a result of a higher property valuation and a lower borrowing level. Fortune REIT's gross liability as a percentage of its gross assets decreased to 26.6% as at 30 June 2018 (31 December 2017: 32.1%).

Fortune REIT has obtained both secured and unsecured loan facilities. Further to the early repayment of a secured loan facility, Fortune REIT's financial flexibility has been enhanced as 15 out of its 16 investment properties are unencumbered. As at 30 June 2018, approximately 80% of total committed debts were unsecured. The secured loan facility is secured over Ma On Shan Plaza which carried an aggregate fair value of HK$5,917 million as at 30 June 2018. The Trustee has provided guarantees for all of the loan facilities.

Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements. As at 30 June 2018, available liquidity stood at HK$1,797.3 million (31 December 2017: HK$1,216.0 million), comprising HK$700.0 million undrawn committed facilities (31 December 2017: HK$700.0 million) and HK$1,097.3 million cash and deposit (31 December 2017: HK$516.0 million). The increase in period-end cash and deposit balance was primarily due to the cash retained from the remaining divestment proceeds.

As at 30 June 2018, the interest cost for approximately 54% (31 December 2017: 60%) of Fortune REIT's outstanding debts was hedged through interest rate swaps and caps.

Net asset value per unit amounted to HK$16.09 as at 30 June 2018, up 14.5% from HK$14.05 at the end of 2017.

PORTFOLIO VALUATION

Notwithstanding the divestment of Provident Square, Fortune REIT's portfolio valuation increased by 5.1% from HK$38,812 million as at 31 December 2017 to HK$40,778 million as at 30 June 2018. On a like-for-like basis excluding Provident Square divested during the Reporting Period, valuation grew by 8.0% over the six-month period. Knight Frank Petty Limited, the Principal Valuer, adopted the valuation methodology of income capitalisation approach and cross-referenced with direct comparison approach. To reflect the latest transaction yields of similar properties, the average capitalisation rate was compressed by about 25 bps to 4.3%. With the increased valuation, a revaluation gain of HK$3,011.5 million was recorded for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2018, Fortune REIT owns a geographically diverse portfolio of 16 retail malls and properties in Hong Kong, comprising approximately 3.0 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	8,580	98.6%	653
Fortune Kingswood	665,244	8,069	94.0%	622
Ma On Shan Plaza	310,084	5,917	99.6%	290
Metro Town	180,822	3,816	100%	74
Fortune Metropolis	332,168	2,779	83.1%	179
Laguna Plaza	163,203	2,624	98.1%	150
Belvedere Square	276,862	2,534	99.5%	329
Waldorf Avenue	80,842	1,795	100%	73
Caribbean Square	63,018	1,231	100%	117
Jubilee Square	170,616	952	96.2%	97
Smartland	123,544	773	95.6%	67
Tsing Yi Square	78,836	748	100%	27
Centre de Laguna	43,000	322	100%	N.A
Hampton Loft	74,734	305	100%	35
Lido Avenue	9,836	205	100%	N.A
Rhine Avenue	14,604	128	100%	N.A
Total / Overall average	**3,001,882**	**40,778**	**96.0%**	**2,713**

BUSINESS REVIEW

The Hong Kong retail market demonstrated double-digit growth during the first five months of 2018. The growth has spanned over a wide spectrum of sectors with big ticket items such as jewelry & watches and electrical goods taking the lead and non-discretionary sectors registered a modest growth. In general, operating environment has been more positive for retailers.

Asset enhancement initiatives ("AEIs") at Fortune Kingswood started in June 2018 and has caused minor disruption to its operations during the Reporting Period. Nevertheless, portfolio occupancy still registered a healthy 96.0% as at 30 June 2018 (31 December 2017: 98.1%) while tenant retention rate was moderated to 60.7% due to some tenants' reshuffling at Fortune Kingswood. A rental reversion of 13.6% was achieved from renewals during the Reporting Period with average passing rent of HK$45.9 per Sq. ft. as at 30 June 2018.

Fortune Malls have a well-diversified trade mix with a strong focus on daily necessities. Tenants in the non-discretionary retail sectors such as food and beverages, supermarkets as well as services and education altogether accounted for approximately 70% of total GRA. These sectors remain as the anchor to sustain Fortune REIT's resilience over the long term.

Major AEIs Commenced at Fortune Kingswood

Fortune Kingswood, the largest asset in Fortune REIT's portfolio, is undergoing a major AEIs for a transformation into a regional shopping mall. The first phase of work started in June 2018 at the West Block. The renovation of the West Block is expected to be completed in phases by end of 2019 with an estimated capex of HK$150 million. The West Block will be equipped with some enriched retail and food and beverage offerings, a modernised ambiance and more shopper-friendly facilities.

OUTLOOK

The Hong Kong economy grew notably by 4.7% year-on-year in the first quarter of 2018 while private consumption recorded a robust 8.6% year-on-year growth on the back of a tight labour market as well as rising asset prices. For the first five months in 2018, Hong Kong's total retail sales value recorded a 13.7% year-on-year growth. Retail sales outlook remains positive in the near term as visitor arrivals are set for a steady rise given the opening of the Hong Kong-Zhuhai-Macao Bridge as well as the Express Rail Link later in 2018. With a broad-based recovery in retail sales, we are hopeful of seeing a positive leasing market to follow.

The US Federal Reserve has increased interest rate twice for a total rise of 0.5% during the Reporting Period. As US employment and inflation continue to climb, the financial market generally expects two more rate hikes for the rest of 2018. As part of Fortune REIT's prudent capital management, we have hedging measures in place to limit the potential financial impact of interest rate volatility.

Fortune REIT is dedicated to drive revenue growth and sustainable returns to the Unitholders by building on the strong foundation of its portfolio. We remain focused on proactive leasing management and enhancing the tenant mix, adding value to our malls through AEIs, prudently seeking yield-accretive investment opportunities and maintaining a healthy capital structure.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2018, the total number of issued units of Fortune REIT was 1,917,295,034. As compared with the position as at 31 December 2017, a total of 6,018,927 new units were issued during the Reporting Period in the following manner:

- On 2 January 2018, 3,072,278 new units were issued to the Manager at the price of HK$9.5526 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$29.3 million payable by Fortune REIT for the period from 1 October 2017 to 31 December 2017.

- On 6 April 2018, 2,946,649 new units were issued to the Manager at the price of HK$9.4770 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK$27.9 million payable by Fortune REIT for the period from 1 January 2018 to 31 March 2018.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 6,561,000 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 Period.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The Register will be closed on Tuesday, 14 August 2018, during which day no transfer of units on the Register will be effected. In order to qualify for the interim 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 Monday, 13 August 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 Monday, 13 August 2018. The payment of interim distribution will be made to unitholders on Wednesday, 29 August 2018.

SINGAPORE INCOME TAX ON FORTUNE REIT DISTRIBUTION

The interim 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 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. 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 2018.

ISSUANCE OF 2018 INTERIM REPORT

The 2018 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 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, 27 July 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.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	*Six months ended 30 June* 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited) (Restated)
Revenue	5	978,062	956,669
Property operating expenses	6	(206,202)	(207,149)
Net property income (before manager's performance fee)		**771,860**	**749,520**
Manager's performance fee		(23,276)	(22,496)
Net property income		**748,584**	**727,024**
Manager's base fee		(58,425)	(54,950)
Foreign currency exchange gain		56	70
Interest income		4,004	342
Trust expenses	7	(8,859)	(8,145)
Gain on disposal of a property company	12	941,060	-
Change in fair value of investment properties	12	3,011,511	1,096,953
Finance costs	8	(89,508)	(216,925)
Profit before taxation and transactions with unitholders	9	**4,548,423**	**1,544,369**
Income tax expense	10	(113,415)	(110,449)
Profit for the period, before transactions with unitholders		**4,435,008**	**1,433,920**
Distributions to unitholders		(505,181)	(487,324)
Total comprehensive income for the period		**3,929,827**	**946,596**
Income available for distribution to unitholders		**505,181**	**487,324**
Basic earnings per unit (HK cents)	11	232.05	75.24

Distribution Statement
For the six months ended 30 June 2018

	Notes	*Six months ended 30 June* *2018* *HK$'000* *(Unaudited)*	*2017* *HK$'000* *(Unaudited)*
Profit for the period, before transactions with unitholders		**4,435,008**	**1,433,920**
Adjustments:			
Manager's base fee		58,425	54,950
Gain on disposal of a property company		(941,060)	-
Change in fair value of investment properties		(3,011,511)	(1,096,953)
Change in fair value of derivative financial instruments		(42,348)	84,280
Front end fees		-	4,852
Foreign currency exchange gain		(56)	(70)
Other non-tax deductible trust expenses		6,723	6,345
Income available for distribution	(i)	**505,181**	**487,324**
Distribution per unit (HK cents)	(ii)	**26.34**	**25.53**

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 26.34 HK cents for the six months ended 30 June 2018 is calculated based on the income available for distribution for the period of HK$505.2 million over issued units as at 30 June 2018 of 1,917,295,034 units. The distribution amounting to HK$505.2 million for the six months ended 30 June 2018 will be paid on 29 August 2018.

The distribution per unit of 25.53 HK cents for the six months ended 30 June 2017 was calculated based on the income available for distribution for the period of HK$487.3 million over 1,908,173,581 units, represented issued units as at 30 June 2017 of 1,905,208,839 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. The distribution amounted to HK$487.3 million for the six months ended 30 June 2017 was paid on 29 August 2017.

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	*30 June 2018* *HK$'000* (Unaudited)	*31 December 2017* *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	40,778,000	37,751,000
Derivative financial instruments		56,734	19,279
Total non-current assets		40,834,734	37,770,279
Current assets			
Trade and other receivables	13	65,148	266,958
Bank balances and cash		1,097,328	516,036
Derivative financial instruments		-	668
		1,162,476	783,662
Assets of a disposal company classified as held for sale		-	1,068,187
Total current assets		1,162,476	1,851,849
Total assets		41,997,210	39,622,128
Non-current liabilities			
Derivative financial instruments		-	5,790
Borrowings	14	9,296,877	9,286,423
Deferred tax liabilities		456,090	444,146
Total non-current liabilities		9,752,967	9,736,359
Current liabilities			
Trade and other payables	15	781,295	967,726
Borrowings	14	-	1,496,788
Derivative financial instruments		229	-
Distribution payable		505,181	483,436
Provision for taxation		112,019	11,324
		1,398,724	2,959,274
Liabilities directly associated with assets of a disposal company classified as held for sale		-	38,728
Total current liabilities		1,398,724	2,998,002
Total liabilities, excluding net assets attributable to unitholders		11,151,691	12,734,361
Net assets attributable to unitholders		**30,845,519**	**26,887,767**
Units in issue and to be issued ('000)	16	**1,917,295**	**1,914,348**
Net asset value per unit attributable to unitholders (HK$)	17	**16.09**	**14.05**

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 condensed consolidated financial statements are presented in Hong Kong dollars, which is 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" and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

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

(3) Principal Accounting Policies

The condensed 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.

Other than changes in accounting policies resulting from application of new and amendments to the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), the accounting policies and methods of computation used in these condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied for the first time, the new and amendments to IFRSs which are mandatory and effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements. The adoption of these IFRSs has no significant impact on the Group's results and financial position.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies on application of IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. IFRS 15 applies to all contracts with customers except for leases within the scope of IAS 17 *Leases*.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation for charge-out collections is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group's performance in transferring control of goods or services.

3.1.2 Summary of effects arising from initial application of IFRS 15

The Group invests in a portfolio of retail shopping malls in Hong Kong for earning stable rental income under operating leases. It receives leasing rental income, charge out collections and other income from tenants. IFRS 15 does not apply to the leasing component of base rental and other rental which are under the scope of IAS 17 *Leases*. Charge-out collections (e.g. management fee income and air conditioning income) are non-lease components which fall within IFRS 15. Each of these incomes has a stand-alone selling price for the services which are observable under the lease contracts and they are recognised as revenue only when the performance obligation is satisfied.

3.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets and financial liabilities

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Manager reviewed and assessed the Group’s financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date. There would be no impact on initial application of IFRS 9 as all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the Manager reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No impairment would need to be recognised at the date of initial application, 1 January 2018.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

The Group has not applied any new and revised IFRSs that are not yet effective for the current accounting period.

(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 (31 December 2017: 17) properties as at 30 June 2018 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

	Six months ended 30 June	
	2018	*2017*
	HK$'000 *(Unaudited)*	*HK$'000* *(Unaudited)* *(Restated)*
Base rental	757,353	730,644
Other rental	95,442	97,666
Other income	526	1,867
Total rental income	853,321	830,177
Charge-out collections (Note)	124,741	126,492
	978,062	956,669

Note:

Charge-out collections, which consist of payments in respect of the operation of the properties in Hong Kong which are payable by the tenants and licensees, are recognised over time as income when the services and facilities are provided. The Group billed a fixed amount for each month according to the term of the relevant lease.

(6) Property operating expenses

	Six months ended 30 June	
	2018	*2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)* *(Restated)*
Building management expenses	108,593	106,760
Utilities	19,200	20,420
Government rents & rates	6,495	6,845
Property manager fee	23,938	23,380
Carpark operating expenses	14,737	13,890
Advertising and promotion	8,898	9,262
Legal and other professional fees	3,156	5,011
Leasing commission and marketing service fee	13,790	14,529
Others	7,395	7,052
	206,202	207,149

(7) Trust expenses

	Six months ended 30 June	
	2018	*2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Trustee's fee	6,699	6,345
Other charges	2,160	1,800
	8,859	8,145

(8) Finance costs

	Six months ended 30 June	
	2018	*2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
		(Restated)
Interest expenses on bank borrowings	105,176	89,387
Front end fees	13,666	16,976
Commitment fee	874	1,885
Interest rate swaps and caps expenses realised	12,140	24,397
	131,856	132,645
Change in fair value of derivative financial instruments	(42,348)	84,280
	89,508	216,925

(9) Profit before taxation and transactions with unitholders

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

	Six months ended 30 June	
	2018	*2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Fees to external auditor	1,384	1,644
Fee to internal auditor	161	170
Valuation fees (paid to principal valuer)	315	198

(10) Income tax expense

	Six months ended 30 June	
	2018	*2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax:		
- Hong Kong	100,983	95,834
Deferred taxation	12,432	14,615
	113,415	110,449

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2017: 16.5%) for the period. Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (six months ended 30 June 2017: 17%) for the period. No provision for Singapore income tax has been made as Fortune REIT had no assessable profit for the period.

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 all 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.

(11) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK$4,435.0 million (six months ended 30 June 2017: HK$1,433.9 million) by the weighted average of 1,911,191,135 (six months ended 2017: 1,905,692,529) 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.

(12) Investment properties

	For the six months ended 30 June 2018 HK$'000 (Unaudited)	*For the year ended 31 December 2017 HK$'000 (Audited)*
Fair Value		
At beginning of the period/ year	37,751,000	36,368,000
During the period/year:		
Capital expenditure incurred in upgrading investment properties	15,489	52,451
Transfer to assets of a disposal company classified as held for sale (Note)	-	(1,061,000)
Change in fair value of investment properties	3,011,511	2,391,549
At end of the period/year	40,778,000	37,751,000

Note:

(i) On 28 February 2018, Fortune REIT completed the disposal of Provident Square to an independent third party through disposal of the entire equity interest in Maulden Investments Limited for a consideration of HK$2,000.0 million minus adjustment on the net liabilities of HK$12.4 million as at completion date of disposal.

The sales proceeds, net of expenses, have been used to repay part of the banking facilities. The disposal results in a gain of approximately HK$941.1 million.

Analysis of assets and liabilities over which control was lost:

	HK$'000 (Unaudited)
Investment properties	1,061,000
Trade and other receivables	4,048
Bank balances and cash	2,603
Trade and other payables	(19,043)
Provision for taxation	(274)
Deferred tax liabilities	(13,886)
Net assets disposed of	1,034,448

Gain on disposal of a property company is determined as follows:

	HK$'000
	(Unaudited)
Consideration received	1,987,608
Less: Transaction cost incurred	(2,100)
Less: Divestment fee	(10,000)
Less: Net assets disposed of	(1,034,448)
	941,060

Net cash inflow arising on disposal is as follows:

	HK$'000
	(Unaudited)
Consideration received	1,987,608
Less: Cash and cash equivalents disposed of	(2,603)
	1,985,005

(13) Trade and other receivables

	30 June 2018	*31 December 2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Trade receivables	33,962	34,729
Other receivables and prepayments		
Security deposits	25,669	25,669
Other receivables	3,899	204,431
Prepayments	1,618	2,129
	31,186	232,229
	65,148	266,958

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

	30 June 2018	*31 December 2017*
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
0 - 30 days	33,635	34,548
31 - 90 days	317	170
Over 90 days	10	11
	33,962	34,729

(14) Borrowings

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Secured term loans	2,000,000	3,100,000
Unsecured term loans	7,355,060	7,355,060
Unsecured revolving loans	-	400,000
	9,355,060	10,855,060
Less: unamortised front end fees	(58,183)	(71,849)
	9,296,877	10,783,211
Carrying amount repayable:		
On demand or within one year	-	1,496,788
More than one year, but not more than two years	1,150,729	-
More than two years, but not more than five years	8,146,148	9,286,423
	9,296,877	10,783,211
Less: Amount due within one year shown under current liabilities	-	(1,496,788)
	9,296,877	9,286,423

(15) Trade and other payables

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade payables		
Tenants' deposits		
- Outside parties	494,465	495,950
- Related parties	21,708	15,184
Rental received in advance – Outside parties	30,636	27,247
	546,809	538,381
Other payables		
Trustee's fee	2,295	2,232
Deposits receivable for assets classified as held for sale	-	200,000
Other expenses		
- Outside parties	118,887	120,053
- Related parties	56,411	55,719
- Manager	53,776	45,076
Interest payable	433	3,875
Others	2,684	2,390
	234,486	429,345
	781,295	967,726

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 period based on lease term amounted to HK$323.8 million (31 December 2017: HK$308.7 million) as at 30 June 2018.

(16) Units in issue and to be issued

	Number of units '000	*HK$'000*
Balance as at 1 January 2017	1,902,128	7,879,828
Issue of new units during the period:		
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
Issue of new units during the period:		
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
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2018	2,947	27,925
Balance in issue as at 30 June 2018	1,917,295	8,020,407

(17) Net asset value per unit attributable to unitholders

Net asset value per unit as at 30 June 2018 is calculated based on the net assets attributable to unitholders of the Group of HK$30,845.5 million and the total number of 1,917,295,034 units in issue as at 30 June 2018.

Net asset value per unit as at 31 December 2017 was calculated based on the net assets attributable to unitholders of the Group of HK$26,887.8 million and the total number of 1,914,348,385 units in issue and to be issued as at 31 December 2017, including the new units was issued as payment of Manager's base fee in January 2018.

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

As at 30 June 2018, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK$236.2 million (31 December 2017: HK$1,146.2 million).

As at 30 June 2018, the Group's total assets less current liabilities amounted to HK$40,598.5 million (31 December 2017: HK$36,624.1 million).

(19) Comparative figures

Certain comparative figures have been reclassified in these condensed consolidated financial statements, which have no material effect on previously reported profit, to conform with the current period's presentation.

For the six months ended 30 June 2018, (i) the Manager reviewed and reassessed the nature of the revenue and considered that income amounting to HK$45.6 million (for the six months ended 30 June 2017: HK$46.6 million) relates to the reimbursement of expenditure of the Group rather than an output of the Group's ordinary activities in exchange for consideration and therefore this amount is netted off against relevant expenditures and; (ii) change in fair value of derivative financial instruments has been grouped under finance costs as per note 8 instead of being presented it as a line item in the condensed consolidated statement of profit or loss and other comprehensive income.