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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 2016 AND CLOSURE OF REGISTER OF UNITHOLDERS**

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by a trust deed ("Trust Deed") entered into on 4 July 2003 (as amended) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the "Manager"), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the "Trustee"). Fortune REIT is primary listed on The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on Singapore Exchange Securities Trading Limited ("SGX-ST").

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

The board of directors of the Manager (the “Board”) is pleased to announce the audited results of Fortune REIT for the year ended 31 December 2016 (the “Reporting Year” or “FY2016”) as follows:

## FINANCIAL HIGHLIGHTS

	Year ended 31 December 2016	Year ended 31 December 2015	% change
Revenue (HK\$ million)	1,975.4	1,882.1	+5.0%
Net property income (HK\$ million)	1,409.8	1,324.0	+6.5%
Cost-to-revenue ratio	26.4%	27.5%	-1.1%
Income available for distribution (HK\$ million)	935.2	884.6	+5.7%
Distribution per unit (“DPU”) (HK cents)	49.23	46.88	+5.0%
	As at 31 December 2016	As at 31 December 2015	% change
Net asset value per unit (HK\$)	12.90	12.76	+1.1%
Property valuation (HK\$ million)	36,368	35,918	+1.3%
Gearing ratio / Aggregate leverage <sup>1</sup>	29.5%	30.1%	-0.6%

Note:

1. Gearing ratio is defined as total borrowings as a percentage of gross assets. Aggregate leverage is defined as the value of total borrowings and deferred payments as a percentage of gross assets. As at 31 December 2016, there was no deferred payment.

## DISTRIBUTION

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

## FINANCIAL REVIEW

Fortune REIT’s FY2016 total revenue and net property income rose by 5.0% and 6.5% year-on-year to HK\$1,975.4 million and HK\$1,409.8 million respectively. The growth was attributable to the healthy rental reversion across the portfolio as well as a full-year contribution of increased rental from Belvedere Square’s asset enhancement initiatives (“AEIs”) completed in the second half of 2015.

Total property operating expenses for FY2016 (excluding the Manager’s performance fee) increased by 0.9% year-on-year to HK\$521.9 million. As we continue to improve our operational efficiency and rationalize our costs, including implementing various energy saving measures, the cost-to-revenue ratio improved to 26.4% for the Reporting Year (2015: 27.5%).

Total borrowing costs for the Reporting Year totaled HK\$283.6 million, an increase of 6.7% against the previous year. The increase was primarily due to the full-year impact of the additional interest rate hedging entered in the third quarter of 2015 as well as the write-off of front-end fees upon early repayment of loan facilities.

Income available for distribution for FY2016 was HK\$935.2 million, representing a year-on-year increase of 5.7%. The DPU for the Reporting Year was 49.23 HK cents, 5.0% more than that in the previous year (2015: 46.88 HK cents). Comprising an interim and final DPU of 24.78 HK cents and 24.45 HK cents respectively, the FY2016 DPU represented a yield of 5.5% based on the closing unit price of HK\$8.91 in Hong Kong as at 30 December 2016.

### **Final Distribution**

The final DPU of 24.45 HK cents for the six months ended 31 December 2016 will be paid on 1 March 2017 to Unitholders on the registers of Unitholders of Fortune REIT as at 13 February 2017.

### **Strengthened Financial Position**

Fortune REIT's financial position was largely strengthened during the Reporting Year. Fortune REIT entered into new banking facilities in the total amount of HK\$7,700.0 million to early refinance all the debts due in 2016 and 2017, representing 66% of its total debts. These refinancing exercises extended the weighted average term to maturity of committed debts to 3.7 years as at 31 December 2016 and there will be no refinancing needs until 2018.

As at 31 December 2016, total committed loan facilities amounted to HK\$11,721.4 million. Fortune REIT closed the Reporting Year with a gearing ratio and an aggregate leverage of 29.5% (2015: 30.1%) and an average all-in cost of debt of 2.40% (2015: 2.15%). Fortune REIT's gross liability as a percentage of its gross assets decreased to 33.8% as at 31 December 2016 (2015: 34.3%).

Fortune REIT had obtained both secured and unsecured loan facilities. The secured loan facilities are secured over seven of its investment properties, which carried an aggregate fair value of HK\$15,286.0 million as at 31 December 2016. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,855.2 million as at 31 December 2016, comprising committed but undrawn facilities of HK\$1,270.0 million and cash on hand of HK\$585.2 million. Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements.

As at 31 December 2016, the interest cost for approximately 67% (2015: 68%) of Fortune REIT's outstanding debts had been hedged through interest rate swaps and caps.

Net asset value per unit amounted to HK\$12.90 as at 31 December 2016, up 1.1% from HK\$12.76 at the end of 2015.

### **Portfolio Valuation**

As at 31 December 2016, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$36,368.0 million by Savills Valuation and Professional Services Limited. This represents an increase of 1.3% and 0.5% from the valuation as at 31 December 2015 and 30 June 2016 respectively. The higher valuation has resulted in a revaluation gain of HK\$377.0 million for the Reporting Year.

## PORTFOLIO HIGHLIGHTS

As at 31 December 2016, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.18 million Sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq. ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	7,422	98.4%	653
Fortune Kingswood	665,244	6,881	98.4%	622
Ma On Shan Plaza	310,084	5,181	99.2%	290
Metro Town	180,822	3,400	100%	74
Fortune Metropolis	332,168	2,414	95.5%	179
Laguna Plaza	163,203	2,280	97.0%	150
Belvedere Square	276,862	2,181	100%	329
Waldorf Avenue	80,842	1,594	100%	73
Caribbean Square	63,018	991	98.3%	117
Provident Square	180,238	985	84.6%	N.A
Jubilee Square	170,616	873	96.9%	97
Smartland	123,544	700	96.1%	67
Tsing Yi Square	78,836	622	99.0%	27
Centre de Laguna	43,000	275	100%	N.A
Hampton Loft	74,734	268	66.4%	35
Lido Avenue	9,836	186	100%	N.A
Rhine Avenue	14,604	115	100%	N.A
<b>Total / Overall average</b>	<b>3,182,120</b>	<b>36,368</b>	<b>96.7%</b>	<b>2,713</b>

## BUSINESS REVIEW

Despite the sluggish retail market in Hong Kong, Fortune REIT's portfolio of 17 neighborhood malls delivered steady growth during the Reporting Year, thanks to our continued efforts in trade mix optimization and proactive leasing strategy. As at 31 December 2016, the occupancy rate of our portfolio remained healthy at 96.7% (2015: 98.8%) with average passing rent up by 4.5% year-on-year to HK\$41.8 per Sq.ft.. A rental reversion of 14.0% was recorded from renewals during FY2016.

The portfolio currently has a total of 1,378 tenants, of which the top 10 together contributed approximately 26.9% of the portfolio's gross rental income and occupied approximately 20.5% of total GRA as at 31 December 2016. Tenants in the non-discretionary retail sectors such as supermarkets, food and beverages as well as services and education accounted for approximately 68% of total GRA. We continued to see keen leasing demand from these sectors and they will remain the core of Fortune Malls driving our long term resilience, assuring our safe navigation through economic cycles. The Manager will continue to focus on retaining quality tenants, securing early commitment to renewal before leases expire, as well as optimizing the tenant mix at opportune times.

### **Shaping long term growth for the portfolio**

Fortune REIT continued to invest in the long term growth of its portfolio to ensure the malls remain relevant and a preferred choice to the community under a rapidly changing retail environment. In the third quarter of 2016, the Manager completed the refurbishment at Provident Square to fortify the business environment for tenants and enrich offerings to shoppers. The Manager is looking to implement major AEIs at Fortune Kingswood next, aiming at repositioning this largest shopping mall in Tin Shui Wai as a regional shopping and entertainment attraction.

## **OUTLOOK**

The Hong Kong economy picked up slightly in the third quarter of 2016 with GDP up by 1.9% year-on-year, an improvement relative to the 1.7% year-on-year growth in the preceding quarter. Private consumption expenditure also regained momentum in the third quarter, 1.2% higher than a year earlier. While total retail sales in Hong Kong was down by 8.6% for the first 11 months of 2016, consumer staples held up relatively well. Supermarkets and food related items were the only two sectors that registered positive sales growth year-to-date. Fortune REIT's portfolio of private housing estate retail properties, which cater mainly to day-to-day shopping needs with approximately 60% of the tenants in the non-discretionary retail sector, is expected to remain resilient on the back of low unemployment and rising incomes in Hong Kong in the near term.

The external environment is still clouded with uncertainties. It is expected that upward pressure on interest rates would continue in 2017. As part of our prudent risk management, interest cost on 67% of our outstanding debts was hedged as at 31 December 2016, cushioning the impact of potential rise in interest rates. The Manager will continue to monitor and take actions to manage such exposure when necessary.

Fortune REIT's success and resilience is underpinned by its quality portfolio of necessity shopping malls and the Manager's strong expertise and proven track record in driving sustainable returns to the Unitholders. We will continue to build on the strong foundation of our portfolio, execute an effective leasing strategy, add value to our malls through AEIs and trade mix optimization, seek yield-accretive investment opportunities and maintain a healthy capital structure. These efforts will enable us to stay resilient through different economic cycles.

## **EMPLOYEES**

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

## **NEW UNITS ISSUED**

As at 31 December 2016, the total number of issued units of Fortune REIT was 1,898,950,572. As compared with the position as at 31 December 2015, a total of 12,578,530 new units were issued during the Reporting Year in the following manner:

- On 5 January 2016, 3,527,261 new units were issued to the Manager at the price of HK\$7.7000 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.2 million payable by Fortune REIT for the period from 1 October 2015 to 31 December 2015.
- On 1 April 2016, 3,251,990 new units were issued to the Manager at the price of HK\$8.2610 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$26.9 million payable by Fortune REIT for the period from 1 January 2016 to 31 March 2016.
- On 4 July 2016, 2,985,840 new units were issued to the Manager at the price of HK\$9.0650 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.1 million payable by Fortune REIT for the period from 1 April 2016 to 30 June 2016.
- On 3 October 2016, 2,813,439 new units were issued to the Manager at the price of HK\$9.7262 per unit (being ascribed in the Trust Deed) as payment in full of the Manager's base fee of approximately HK\$27.4 million payable by Fortune REIT for the period from 1 July 2016 to 30 September 2016.

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

During the Reporting Year, other than the disposal of 17,536,000 units by the Manager, there was no repurchase, sale or redemption of the units of Fortune REIT by Fortune REIT or its subsidiaries.

## **CORPORATE GOVERNANCE**

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

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

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

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

The Register will be closed on Monday, 13 February 2017, during which day no transfer of units on the Register will be effected. In order to qualify for the final distribution, all unit certificates with completed transfer forms must be lodged with (a) the Hong Kong unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for Hong Kong unitholders) not later than 4:30 p.m. on Friday, 10 February 2017 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 Friday, 10 February 2017. The payment of final distribution will be made to unitholders on Wednesday, 1 March 2017.

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

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

## **REVIEW OF FINAL RESULTS**

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

## **PUBLIC FLOAT**

As far as the Manager is aware, more than 25% of the issued and outstanding units of Fortune REIT were held in public hands as at 31 December 2016.

## **ISSUANCE OF ANNUAL REPORT 2016**

The 2016 Annual Report of Fortune REIT will be dispatched to unitholders on or before 31 March 2017.

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, 26 January 2017

*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; Mr. Lim Lee Meng and Ms. Cheng Ai Phing as Independent Non-executive Directors.*



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	5	1,975,376	1,882,148
Property operating expenses		<u>(521,931)</u>	<u>(517,076)</u>
<b>Net property income (before manager's performance fee)</b>		1,453,445	1,365,072
Manager's performance fee		<u>(43,664)</u>	<u>(41,045)</u>
<b>Net property income</b>		<b>1,409,781</b>	<b>1,324,027</b>
Manager's base fee		(108,796)	(105,785)
Foreign currency exchange gain/(loss)		47	(468)
Interest income		2,023	3,467
Trust expenses	6	(18,665)	(42,379)
Change in fair value of investment properties		377,039	1,626,470
Change in fair value of derivative financial instruments		91,751	(75,500)
Gain on disposal of a property company		-	218,598
Borrowing costs	7	<u>(283,616)</u>	<u>(265,784)</u>
<b>Profit before taxation and transactions with unitholders</b>	8	<b>1,469,564</b>	<b>2,682,646</b>
Income tax expense	9	<u>(211,651)</u>	<u>(196,460)</u>
<b>Profit for the year, before transactions with unitholders</b>		<b>1,257,913</b>	<b>2,486,186</b>
Distributions to unitholders		<u>(935,191)</u>	<u>(884,570)</u>
<b>Profit for the year, after transactions with unitholders</b>		<b>322,722</b>	<b>1,601,616</b>
<b>Other comprehensive income item - that may be reclassified subsequently to profit or loss</b>			
Net gain on derivative financial instruments under cash flow hedge		<u>7,041</u>	<u>23,386</u>
<b>Total comprehensive income for the year</b>		<b><u>329,763</u></b>	<b><u>1,625,002</u></b>
<b>Income available for distribution to unitholders</b>		<b><u>935,191</u></b>	<b><u>884,570</u></b>
Basic earnings per unit (HK cents)	10	<u>66.33</u>	<u>132.00</u>

# Distribution Statement

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>		<b>1,257,913</b>	<b>2,486,186</b>
<b>Adjustments:</b>			
Manager's base fee		108,796	105,785
Acquisition fee		-	19,185
Change in fair value of investment properties		(377,039)	(1,626,470)
Change in fair value of derivative financial instruments		(91,751)	75,500
Gain on disposal of a property company		-	(218,598)
Front end fees		23,090	26,227
Foreign currency exchange (gain) /loss		(47)	468
Other non-tax deductible trust expenses		14,229	16,287
<b>Income available for distribution</b>	(i)	<b>935,191</b>	<b>884,570</b>
<b>Distribution to unitholders</b>			
24.78 HK cents (2015: 23.38 HK cents) per unit for the six months ended 30 June	(ii)	470,008	440,258
24.45 HK cents (2015: 23.50 HK cents) per unit for the six months ended 31 December	(iii)	465,183	444,312
<b>Income available for distribution</b>		<b>935,191</b>	<b>884,570</b>
<b>Distribution per unit (HK cents)</b>		<b>49.23</b>	<b>46.88</b>

## Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the REIT Code issued by the SFC.
- (ii) The distribution per unit of 24.78 HK cents for the six months ended 30 June 2016 (six months ended 30 June 2015: 23.38 HK cents) is calculated based on the income available for distribution for the period of HK\$470.0 million (six months ended 30 June 2015: HK\$440.3 million) over 1,896,137,133 units (30 June 2015: 1,882,805,728 units), representing issued units as at 30 June 2016 of 1,893,151,293 units (30 June 2015: 1,879,418,796 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 2016 of 2,985,840 units (second quarter of 2015: 3,386,932 units). The distribution amounting to HK\$470.0 million (six months ended 30 June 2015: HK\$440.3 million) was paid on 29 August 2016 (six months ended 30 June 2015: 28 August 2015).

- (iii) The distribution per unit of 24.45 HK cents for the six months ended 31 December 2016 (six months ended 31 December 2015: 23.50 HK cents) is calculated based on the income available for distribution for the period of HK\$465.2 million (six months ended 31 December 2015: HK\$444.3 million) over 1,902,127,947 units (31 December 2015: 1,889,899,303 units), representing issued units as at 31 December 2016 of 1,898,950,572 units (31 December 2015: 1,886,372,042 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 2016 of 3,177,375 units (fourth quarter of 2015: 3,527,261 units). The distribution amounting to HK\$465.2 million (six months ended 31 December 2015: HK\$444.3 million) will be paid on 1 March 2017 (six months ended 31 December 2015: 29 February 2016).

# Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	36,368,000	35,918,000
Derivative financial instruments		50,702	5,884
<b>Total non-current assets</b>		<u>36,418,702</u>	<u>35,923,884</u>
<b>Current assets</b>			
Trade and other receivables	12	67,280	73,441
Bank balances and cash		585,217	710,339
<b>Total current assets</b>		<u>652,497</u>	<u>783,780</u>
<b>Total assets</b>		<u>37,071,199</u>	<u>36,707,664</u>
<b>Non-current liabilities</b>			
Derivative financial instruments		4,965	52,837
Borrowings	13	10,229,967	7,228,970
Deferred tax liabilities		426,802	394,867
<b>Total non-current liabilities</b>		<u>10,661,734</u>	<u>7,676,674</u>
<b>Current liabilities</b>			
Trade and other payables	14	753,220	673,984
Borrowings	13	630,000	3,780,054
Derivative financial instruments		370	6,472
Distribution payable		465,183	444,312
Provision for taxation		15,809	19,844
<b>Total current liabilities</b>		<u>1,864,582</u>	<u>4,924,666</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<u>12,526,316</u>	<u>12,601,340</u>
<b>Net assets attributable to unitholders</b>		<u><u>24,544,883</u></u>	<u><u>24,106,324</u></u>
<b>Units in issue and to be issued ('000)</b>	15	<u><u>1,902,128</u></u>	<u><u>1,889,899</u></u>
<b>Net asset value per unit attributable to unitholders (HK\$)</b>	16	<u><u>12.90</u></u>	<u><u>12.76</u></u>

## Notes

### (1) General

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

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

### (2) Basis of preparation

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

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

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

### (3) Principal Accounting Policies

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

The accounting policies used in these consolidated financial statements are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015 except as described below.

In the current year, the Group has applied the following new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2016:

Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements

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

### **New and revised IFRSs issued but not effective**

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

Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>2</sup>
IFRS 9	Financial Instruments <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
IFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers <sup>2</sup>
IFRS 16	Leases <sup>4</sup>
Amendments to IAS 7	Disclosure Initiative <sup>5</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>5</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

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

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017

### **IFRS 9 *Financial Instruments***

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition,

under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test have been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Manager has reviewed the Group's financial instruments as at 31 December 2016 and anticipated that the application of IFRS 9 is not likely to have material impact on the results and financial position of the Group based on an analysis of the Group's existing business model.

#### **(4) Segmental reporting**

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

The Group owns 17 (2015: 17) properties as at 31 December 2016 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the property or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

**(5) Revenue**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Base rental	1,437,915	1,362,286
Charge-out collections	342,346	333,838
Other rental	194,282	184,246
Other income	833	1,778
	<u>1,975,376</u>	<u>1,882,148</u>

**(6) Trust Expenses**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Trustee's fee	12,666	12,241
Acquisition fee	-	19,185
Expenses for acquisition	-	4,046
Other charges	5,999	6,907
	<u>18,665</u>	<u>42,379</u>

**(7) Borrowing costs**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Interest expense on		
- term loans	164,628	149,282
- revolving loans	8,517	21,024
Equalisation of interest expense through interest rate swaps	66,881	58,537
Commitment fee	2,956	1,687
Front end fees		
- amortisation	31,859	33,810
- written off upon early repayment of term loans	8,775	1,444
	<u>283,616</u>	<u>265,784</u>

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

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

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Audit fee	1,934	2,182
Fee to internal auditor	330	330
Valuation fees (paid to principal valuer)	483	618



**(9) Income tax expense**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Current tax:		
- Hong Kong	179,883	164,674
- Singapore	-	64
- (Over)/under provision in prior year	(167)	3
	<u>179,716</u>	<u>164,741</u>
Deferred taxation:		
- Current year	32,081	31,742
- Over provision in prior year	(146)	(23)
	<u>31,935</u>	<u>31,719</u>
	<u><u>211,651</u></u>	<u><u>196,460</u></u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2015: 16.5%). Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2015: 17%). No provision for Singapore income tax has been made as Fortune REIT had no assessable profit for the year.

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

**(10) Earnings per unit**

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$1,257.9 million (2015: HK\$2,486.2 million) by the weighted average of 1,896,574,014 (2015: 1,883,488,901) units outstanding during the year.

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

**(11) Investment properties**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Fair value at beginning of the year	35,918,000	32,720,000
During the year:		
Acquisition of an investment property	-	1,912,254
Capital expenditure incurred in upgrading investment properties	72,961	97,765
Disposal of an investment property	-	(438,489)
Change in fair value of investment properties	377,039	1,626,470
Fair value at end of the year	<u><u>36,368,000</u></u>	<u><u>35,918,000</u></u>

**(12) Trade and other receivables**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Trade receivables	33,320	39,253
Other receivables and prepayments		
Security deposits	28,102	28,078
Other receivables	3,840	4,288
Prepayments	2,018	1,822
	<u>33,960</u>	<u>34,188</u>
	<u>67,280</u>	<u>73,441</u>

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

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
0 - 30 days	33,139	38,954
31 - 90 days	102	251
Over 90 days	79	48
	<u>33,320</u>	<u>39,253</u>

**(13) Borrowings**

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Secured term loans	5,321,360	7,845,351
Unsecured term loans	5,000,000	1,618,700
Secured revolving loans	-	1,470,000
Unsecured revolving loans	630,000	130,000
	<u>10,951,360</u>	<u>11,064,051</u>
Less: unamortised front end fees	(91,393)	(55,027)
	<u>10,859,967</u>	<u>11,009,024</u>
Carrying amount repayable:		
On demand or within one year	630,000	3,780,054
More than one year, but not more than two years	1,061,448	3,940,320
More than two years, but not more than five years	9,168,519	3,288,650
	<u>10,859,967</u>	<u>11,009,024</u>
Less: Amount due within one year shown under current liabilities	(630,000)	(3,780,054)
	<u>10,229,967</u>	<u>7,228,970</u>

**(14) Trade and other payables**

	2016 HK\$'000	2015 HK\$'000
<b>Trade payables</b>		
Tenants' deposits		
- Outside parties	471,912	453,704
- Related parties	16,587	13,907
Rental received in advance – Outside parties	23,458	22,110
	<u>511,957</u>	<u>489,721</u>
<b>Other payables</b>		
Trustee's fee	2,122	2,081
Other expenses		
- Outside parties	127,667	106,142
- Related parties	60,660	62,103
- Manager	43,664	6,949
Interest payable	3,249	3,420
Others	3,901	3,568
	<u>241,263</u>	<u>184,263</u>
	<u>753,220</u>	<u>673,984</u>

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

The tenants' deposits to be settled after twelve months from the Reporting Year based on lease term amounted to HK\$264.2 million (2015: HK\$299.6 million) as at 31 December 2016.

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

	Number of units '000	HK\$'000
Balance as at 1 January 2015	1,876,290	7,665,247
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2015	<u>10,082</u>	<u>78,625</u>
Balance in issue as at 31 December 2015	1,886,372	7,743,872
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2015	<u>3,527</u>	<u>27,160</u>
Balance as at 31 December 2015	1,889,899	7,771,032
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 January to 30 September 2016	<u>9,052</u>	<u>81,296</u>
Balance in issue as at 31 December 2016	1,898,951	7,852,328
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2016	<u>3,177</u>	<u>27,500</u>
Balance as at 31 December 2016	<u>1,902,128</u>	<u>7,879,828</u>

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

Net asset value per unit is calculated based on the net assets attributable to unitholders of the Group of HK\$24,544.9 million (2015: HK\$24,106.3 million) and the total number of 1,902,127,947 (2015: 1,889,899,303) 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 2016, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,212.1 million (2015: HK\$4,140.9 million).

As at 31 December 2016, the Group's total assets less current liabilities amounted to HK\$35,206.6 million (2015: HK\$31,783.0 million).