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Fortune Real Estate Investment Trust

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

Managed by



ARA Asset Management (Fortune) Limited

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND CLOSURE OF REGISTER OF UNITHOLDERS

Fortune Real Estate Investment Trust ("Fortune REIT") is a real estate investment trust constituted by a trust deed ("Trust Deed") entered into on 4 July 2003 (as amended) made between ARA Asset Management (Fortune) Limited, as the manager of Fortune REIT (the "Manager"), and HSBC Institutional Trust Services (Singapore) Limited, as the trustee of Fortune REIT (the "Trustee"). Fortune REIT is primary listed on The Stock Exchange of Hong Kong Limited ("SEHK") and secondary listed on the 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, Provident Square, 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 2017 (the "Reporting Period") as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2017	Six months ended 30 June 2016	% change
Revenue (HK\$ million)	1,003.3	979.1	+2.5%
Net property income (HK\$ million)	727.0	705.9	+3.0%
Cost-to-revenue ratio	25.3%	25.7%	-0.4%
Income available for distribution (HK\$ million)	487.3	470.0	+3.7%
Distribution per unit ("DPU") (HK cents)	25.53	24.78	+3.0%
	As at 30 Jun 2017	As at 31 Dec 2016	% change
Net asset value per unit (HK\$)	13.39	12.90	+3.8%
Property valuation (HK\$ million)	37,500	36,368	+3.1%
Gearing ratio / Aggregate leverage ¹	28.4%	29.5%	-1.1%

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 30 June 2017, there was no deferred payment.

DISTRIBUTION

Fortune REIT's distribution policy is to distribute to unitholders on a semi-annual basis, the higher of (i) 100% of its tax exempt income (except dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager) after deduction of applicable expenses; and (ii) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial year adjusted to eliminate the effects of certain adjustments in accordance with the Code on Real Estate Investment Trusts 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 2017. Total revenue rose by 2.5% year-on-year to HK\$1,003.3 million benefitting from the positive rental reversion across the portfolio. Total property operating expenses (excluding the Manager's performance fee) were well contained with a slight increase of 1.0% year-on-year to HK\$253.8 million, resulting in a 3.0% increase in net property income to HK\$727.0 million. Reduced electricity consumption as well as an one-off rebate received for electricity charges has resulted in lower utility expenses during the Reporting Period. As we continue to strive for operational efficiency, the cost-to-revenue ratio improved further to 25.3% for the Reporting Period (first half of 2016: 25.7%).

Income available for distribution for the Reporting Period was HK\$487.3 million, representing a year-on-year increase of 3.7%. The DPU for the Reporting Period was 25.53 HK cents, up by 3.0% year-on-year (first half of 2016: 24.78 HK cents). Based on the closing unit price of HK\$9.69 as of 30 June 2017 in Hong Kong, the DPU implied an annualised distribution yield of 5.3%.

The interim DPU of 25.53 HK cents for the six months ended 30 June 2017 will be paid on 29 August 2017 to Unitholders on the registers of Unitholders of Fortune REIT as of 14 August 2017.

CAPITAL MANAGEMENT

As part of our prudent capital management, we have, in April 2017, capitalized on the ample liquidity in the Hong Kong banking system and arranged for a HK\$1,200.0 million unsecured banking facility with a 5-year tenor to refinance all the debts due in 2018. As a result, the weighted average term to maturity of committed debts was maintained at 3.6 years as at 30 June 2017 (31 December 2016: 3.7 years) and there are no refinancing needs until 2019. The effective borrowing cost for the Reporting Period was 2.41% (first half of 2016: 2.39%).

As of 30 June 2017, Fortune REIT's total committed loan facilities amounted to HK\$11,855.1 million (31 December 2016: HK\$11,721.4 million). The gearing ratio and aggregate leverage decreased to 28.4% (31 December 2016: 29.5%) as a result of a higher property valuation. Fortune REIT's gross liability as a percentage of its gross assets decreased to 33.0% as of 30 June 2017 (31 December 2016: 33.8%).

Fortune REIT has obtained both secured and unsecured loan facilities. The secured loan facilities are secured over five investment properties which carried an aggregate fair value of HK\$10,033.0 million as of 30 June 2017. While proactively refinancing our debt portfolio with an extended maturity and at lower costs, we have also taken the opportunity to increase the proportion of unsecured debt which would provide us with more financial flexibility. As of 30 June 2017, approximately 70% of total committed debts were unsecured with unencumbered assets amounted to HK\$27,467.0 million in total. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,941.7 million as at 30 June 2017, comprising committed but undrawn facilities of HK\$1,400.0 million and cash on hand of HK\$541.7 million. Fortune REIT currently possesses sufficient financial resources to satisfy its financial commitment and working capital requirements.

As of 30 June 2017, the interest cost for approximately 60% (31 December 2016: 67%) of Fortune REIT's outstanding debts had been hedged through interest rate swaps and caps. The Manager would continue to closely monitor the interest rate movements and optimize Fortune REIT's hedging profile when opportunity arises.

Net asset value per unit amounted to HK\$13.39 as of 30 June 2017, up 3.8% from HK\$12.90 as at the end of 2016.

PORTFOLIO VALUATION

As of 30 June 2017, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$37,500.0 million by Knight Frank Petty Limited. This represents an increase of 3.6% and 3.1% from the valuation as of 30 June 2016 and 31 December 2016 respectively. The higher valuation has resulted in a revaluation gain of HK\$1,097.0 million for the Reporting Period.

PORTFOLIO HIGHLIGHTS

As at 30 June 2017, Fortune REIT owns a geographically diverse portfolio of 17 retail malls and properties in Hong Kong, comprising approximately 3.18 million Sq.ft. of retail space and 2,713 car parking lots.

Property	Gross Rentable Area ("GRA") (Sq.ft.)	Valuation (HK\$ million)	Occupancy	No. of car parking lots
Fortune City One	414,469	7,623	98.3%	653
Fortune Kingswood	665,244	6,984	97.7%	622
Ma On Shan Plaza	310,084	5,361	99.4%	290
Metro Town	180,822	3,570	100%	74
Fortune Metropolis	332,168	2,471	96.2%	179
Laguna Plaza	163,203	2,382	82.7%	150
Belvedere Square	276,862	2,313	99.9%	329
Waldorf Avenue	80,842	1,618	100%	73
Provident Square	180,238	1,052	94.0%	N.A
Caribbean Square	63,018	1,033	100%	117
Jubilee Square	170,616	873	99.6%	97
Smartland	123,544	717	95.9%	67
Tsing Yi Square	78,836	634	100%	27
Centre de Laguna	43,000	287	98.9%	N.A
Hampton Loft	74,734	274	66.4%	35
Lido Avenue	9,836	190	100%	N.A
Rhine Avenue	14,604	118	100%	N.A
Total / Overall average	3,182,120	37,500	96.6%	2,713

OPERATIONS REVIEW

The Hong Kong retail market finally shrugged off an extended setback for about two years and showed some positive signs during the Reporting Period. While it is too early to conclude the market is on track for a full recovery, it continues to pose opportunities and challenges for Fortune REIT's business.

As of 30 June 2017, the occupancy rate of Fortune REIT's portfolio remained steady at 96.6% (31 December 2016: 96.7%) with average passing rent at HK\$42.0 per Sq.ft. Rental reversion of 10.7% was achieved from renewals during the Reporting Period. Tenant retention rate reached a high of 78% as we have focused on proactively retaining quality tenants and securing early commitment before leases expire.

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 69% of total GRA. These sectors will continue to anchor Fortune Malls driving Fortune REIT's long-term resilience.

ASSET ENHANCEMENT INITIATIVES

Fortune REIT has a good track record in reaping benefits from its asset enhancement initiatives (“AEIs”). With the upcoming influx of population in the greater Tin Siu Wai/Yuen Long area, the Manager is planning to execute an AEIs project on Fortune Kingswood with an aim to reposition it as a regional shopping and entertainment hub for a wider spectrum of shoppers beyond its primary catchment. We believe that, by enriching the offerings to shoppers and strengthening the business environment for tenants, the enormous potential for Fortune Kingswood, as the largest asset of Fortune REIT, would be unlocked.

OUTLOOK

The Hong Kong economy accelerated in the first quarter of 2017 with GDP growing notably by 4.3% year-on-year, compared to a 3.2% growth in the preceding quarter. With the support of favorable employment and income conditions, private consumption continued on its uptrend with a 3.7% year-on-year growth in the first quarter of 2017. The Hong Kong retail sales resumed moderate growth for the first time in March 2017 after a 24-month decline. While domestic demand has been resilient, the recent revival in tourist arrivals has given the retail market a lift. For the first five months in 2017, total retail sales value decreased by 0.7% year-on-year. The decline has narrowed as compared to the drop of 1.3% in first quarter of 2017 and 8.1% for 2016.

On the other hand, while U.S. interest rate normalization is expected to continue, our prudent capital management will limit its potential financial impact on Fortune REIT as interest cost on 60% of our outstanding debts has been hedged.

Fortune REIT would continue to build upon our three successful strategies in driving sustainable returns to Unitholders. We remain focused on executing active leasing management and enhancing the tenant mix, adding value to our malls through AEIs and prudently seeking yield-accretive investment opportunities.

EMPLOYEES

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

NEW UNITS ISSUED

As at 30 June 2017, the total number of issued units of Fortune REIT was 1,905,208,839. As compared with the position as at 31 December 2016, a total of 6,258,267 new units were issued during the Reporting Period in the following manner:

- On 3 January 2017, 3,177,375 new units were issued to the Manager at the price of HK\$8.6550 per unit (being ascribed in the Trust Deed) as payment in full of the Manager’s base fee of approximately HK\$27.5 million payable by Fortune REIT for the period from 1 October 2016 to 31 December 2016.
- On 5 April 2017, 3,080,892 new units were issued to the Manager at the price of HK\$8.7320 per unit (being ascribed in the Trust Deed) as payment in full of the Manager’s base fee of approximately HK\$26.9 million payable by Fortune REIT for the period from 1 January 2017 to 31 March 2017.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 9,072,000 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 the SEHK and secondary listed on the 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 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 Monday, 14 August 2017, 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 Friday, 11 August 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, 11 August 2017. The payment of interim distribution will be made to unitholders on Tuesday, 29 August 2017.

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 2017.

ISSUANCE OF 2017 INTERIM REPORT

The 2017 Interim Report of Fortune REIT for the Reporting Period will be dispatched to unitholders on or before 31 August 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, 28 July 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; Ms. Cheng Ai Phing and Ms. Yeo Annie (alias Yeo May Ann) as Independent Non-executive Directors.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	5	1,003,274	979,064
Property operating expenses		(253,754)	(251,263)
Net property income (before manager's performance fee)		749,520	727,801
Manager's performance fee		(22,496)	(21,876)
Net property income		727,024	705,925
Manager's base fee		(54,950)	(53,931)
Foreign currency exchange gain		70	282
Interest income		342	1,405
Trust expenses	6	(8,145)	(9,813)
Change in fair value of investment properties		1,096,953	223,368
Change in fair value of derivative financial instruments		(84,280)	(100,663)
Borrowing costs	7	(132,645)	(139,958)
Profit before taxation and transactions with unitholders	8	1,544,369	626,615
Income tax expense	9	(110,449)	(105,604)
Profit for the period, before transactions with unitholders		1,433,920	521,011
Distributions to unitholders		(487,324)	(470,008)
Profit for the period, after transactions with unitholders		946,596	51,003
Other comprehensive income - item that may be reclassified subsequently to profit or loss			
Net gain on derivative financial instruments under cash flow hedge		-	7,041
Total comprehensive income for the period		946,596	58,044
Income available for distribution to unitholders		487,324	470,008
Basic earnings per unit (HK cents)	10	75.24	27.51

Distribution Statement

For the six months ended 30 June 2017

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period, before transactions with unitholders	1,433,920	521,011
Adjustments:		
Manager's base fee	54,950	53,931
Change in fair value of investment properties	(1,096,953)	(223,368)
Change in fair value of derivative financial instruments	84,280	100,663
Non-tax deductible front end fees	4,852	10,676
Foreign currency exchange gain	(70)	(282)
Other non-tax deductible trust expenses	6,345	7,377
Income available for distribution (Note (i))	487,324	470,008
Distribution per unit (HK cents) (Note (ii))	25.53	24.78

Notes:

- (i) The distribution policy of Fortune REIT is to distribute to unitholders on a semi-annual basis, the higher of (a) 100% of its tax-exempt income (exclude dividends paid out of interest income and gains, if any, which are distributable at the discretion of the Manager), after deduction of applicable expenses; and (b) 90% of consolidated net profit after tax (before transactions with unitholders) for the relevant financial period adjusted to eliminate the effects of certain adjustments in accordance with the REIT Code issued by the SFC.
- (ii) The distribution per unit of 25.53 HK cents for the six months ended 30 June 2017 (six months ended 30 June 2016: 24.78 HK cents) is calculated based on the income available for distribution of HK\$487.3 million for the six months ended 30 June 2017. (six months ended 30 June 2016: HK\$470.0 million) over 1,908,173,581 units (30 June 2016: 1,896,137,133 units), representing issued units as at 30 June 2017 of 1,905,208,839 units (30 June 2016: 1,893,151,293 units) plus the number of units issued after the distribution period to the Manager as settlement of the Manager's base fee for its services in the second quarter of 2017 of 2,964,742 units (second quarter of 2016: 2,985,840 units).

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	37,500,000	36,368,000
Derivative financial instruments		3,358	50,702
Total non-current assets		37,503,358	36,418,702
Current assets			
Trade and other receivables	12	77,345	67,280
Bank balances and cash		541,672	585,217
Total current assets		619,017	652,497
Total assets		38,122,375	37,071,199
Non-current liabilities			
Derivative financial instruments		40,437	4,965
Borrowings	13	10,368,643	10,229,967
Deferred tax liabilities		441,417	426,802
Total non-current liabilities		10,850,497	10,661,734
Current liabilities			
Trade and other payables	14	754,648	753,220
Borrowings	13	370,000	630,000
Derivative financial instruments		1,834	370
Distribution payable		487,324	465,183
Provision for taxation		111,643	15,809
Total current liabilities		1,725,449	1,864,582
Total liabilities, excluding net assets attributable to unitholders		12,575,946	12,526,316
Net assets attributable to unitholders		25,546,429	24,544,883
Units in issue and to be issued ('000)	15	1,908,174	1,902,128
Net asset value per unit attributable to unitholders (HK\$)	16	13.39	12.90

Notes

(1) General

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

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.

The accounting policies used in these condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016 except as described below.

The International Accounting Standards Board has issued a number of new and amendments to International Financial Reporting Standards ("IFRSs"). The adoption of these IFRSs which are effective for the Group's annual accounting period beginning on 1 January 2017 has no significant impact on the Group's results and financial position.

The Group has not early adopted the following new and amendments to IFRSs which were issued and are pertinent to its operations but not yet effective:

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

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

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

IFRS 9 *Financial Instruments*

IFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 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 fair value through other comprehensive income. 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 *Financial Instruments: Recognition and Measurement*. 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 has 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 30 June 2017 and anticipated that the application of IFRS 9 is not likely to have material impact on the results and financial position of the Group based on an analysis of the Group's existing business model.

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

(4) Segmental reporting

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

The Group owns 17 (31 December 2016: 17) properties as at 30 June 2017 which are located in Hong Kong. Revenue and net property income of each property (which constitutes an operating segment) is the measure reported to the Manager for the purposes of resource allocation and performance assessment. The Manager considers that all existing properties held by the Group, consisting of retail shopping malls, have similar economic characteristics and have similar nature in providing leasing service to similar type of retail tenants for rental income. In addition, the cost structure and the economic environment in which they operate are similar. Therefore, the Manager concluded that each of the properties or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

(5) Revenue

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Base rental	730,644	712,428
Charge-out collections	173,097	171,310
Other rental	97,666	95,005
Other income	1,867	321
	<u>1,003,274</u>	<u>979,064</u>

(6) Trust Expenses

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Trustee's fee	6,345	6,276
Other charges	1,800	3,537
	<u>8,145</u>	<u>9,813</u>

(7) Borrowing costs

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expense on		
- term loans	87,445	81,232
- revolving loans	1,942	5,658
Equalisation of interest expense through interest rate swaps and caps	24,397	34,588
Commitment fee	1,885	1,084
Front end fees		
- amortisation	12,817	17,197
- written off upon early repayment of term loans	4,159	199
	<u>132,645</u>	<u>139,958</u>

(8) Profit before taxation and transactions with unitholders

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

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Fees to external auditor	1,644	1,559
Fees to internal auditor	170	170
Valuation fees (paid to principal valuer)	198	193
	<u>198</u>	<u>193</u>

(9) Income tax expense

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax:		
- Hong Kong	95,834	90,076
Deferred taxation	14,615	15,528
	<u>110,449</u>	<u>105,604</u>

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (six months ended 30 June 2016: 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 2016: 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.

(10) Earnings per unit

Basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$1,433.9 million (six months ended 30 June 2016: HK\$521.0 million) by the weighted average of 1,905,692,529 units (six months ended 30 June 2016: 1,893,604,897 units) outstanding during the period.

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

(11) Investment properties

	<i>For the six months ended 30 June 2017 HK\$'000 (Unaudited)</i>	<i>For the year ended 31 December 2016 HK\$'000 (Audited)</i>
Fair value		
At beginning of the period/year	36,368,000	35,918,000
During the period/year:		
Capital expenditure incurred in upgrading investment properties	35,047	72,961
Change in fair value of investment properties	1,096,953	377,039
At end of the period/year	<u>37,500,000</u>	<u>36,368,000</u>

(12) Trade and other receivables

	<i>30 June 2017 HK\$'000 (Unaudited)</i>	<i>31 December 2016 HK\$'000 (Audited)</i>
Trade receivables	<u>37,223</u>	<u>33,320</u>
Other receivables and prepayments		
Security deposits	27,901	28,102
Other receivables	8,904	3,840
Prepayments	3,317	2,018
	<u>40,122</u>	<u>33,960</u>
	<u>77,345</u>	<u>67,280</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>30 June 2017 HK\$'000 (Unaudited)</i>	<i>31 December 2016 HK\$'000 (Audited)</i>
0 - 30 days	32,516	33,139
31 - 90 days	3,918	102
Over 90 days	789	79
	<u>37,223</u>	<u>33,320</u>

(13) Borrowings

	<i>30 June 2017 HK\$'000 (Unaudited)</i>	<i>31 December 2016 HK\$'000 (Audited)</i>
Secured term loans	3,100,000	5,321,360
Unsecured term loans	7,355,060	5,000,000
Unsecured revolving loans	370,000	630,000
	<u>10,825,060</u>	<u>10,951,360</u>
Less: unamortised front end fees	(86,417)	(91,393)
	<u>10,738,643</u>	<u>10,859,967</u>
Carrying amount repayable:		
On demand or within one year	370,000	630,000
More than one year, but not more than two years	1,092,674	1,061,448
More than two years, but not more than five years	9,275,969	9,168,519
	<u>10,738,643</u>	<u>10,859,967</u>
Less: Amount due within one year shown under current liabilities	(370,000)	(630,000)
	<u>10,368,643</u>	<u>10,229,967</u>

(14) Trade and other payables

	<i>30 June 2017 HK\$'000 (Unaudited)</i>	<i>31 December 2016 HK\$'000 (Audited)</i>
Trade payables		
Tenants' deposits		
- Outside parties	491,723	471,912
- Related parties	15,502	16,587
Rental received in advance – Outside parties	38,102	23,458
	<u>545,327</u>	<u>511,957</u>
Other payables		
Trustee's fee	2,160	2,122
Other expenses		
- Outside parties	124,167	127,667
- Related parties	55,135	60,660
- Manager	22,496	43,664
Interest payable	3,142	3,249
Others	2,221	3,901
	<u>209,321</u>	<u>241,263</u>
	<u>754,648</u>	<u>753,220</u>

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

The tenants' deposits to be settled after twelve months from the end of the reporting period based on lease term amounted to HK\$276.0 million (31 December 2016: HK\$264.2 million) as at 30 June 2017.

(15) Units in issue and to be issued

	<i>Number of units</i>	
	<i>'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2016	1,889,899	7,771,032
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 30 September 2016	9,052	81,296
Balance in issue as at 31 December 2016	<u>1,898,951</u>	<u>7,852,328</u>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 October to 31 December 2016	3,177	27,500
Balance as at 31 December 2016	<u>1,902,128</u>	<u>7,879,828</u>
Issue of new units during the period:		
As payment of Manager's base fee for the period from 1 January to 31 March 2017	3,081	26,902
Balance in issue as at 30 June 2017	<u>1,905,209</u>	<u>7,906,730</u>
New units to be issued:		
As payment of Manager's base fee for the period from 1 April to 30 June 2017	2,965	28,048
Balance as at 30 June 2017	<u>1,908,174</u>	<u>7,934,778</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\$25,546.4 million (31 December 2016: HK\$24,544.9 million) and the total number of 1,908,173,581 (31 December 2016: 1,902,127,947) units in issue or to be issued, including the new units to be issued as payment of Manager's base fee.

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

As at 30 June 2017, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,106.4 million (31 December 2016: HK\$1,212.1 million).

As at 30 June 2017, the Group's total assets less current liabilities amounted to HK\$36,396.9 million (31 December 2016: HK\$35,206.6 million).