

FORTUNE

置富產業信託 REIT

Stock Code
Hong Kong 778 | Singapore F25U

ANNUAL
REPORT
2017



GROWING
FORTUNE



How you can grow flower of FORTUNE with us



6. The seed sprouts.
Water regularly and watch it grow peonies – flowers of Fortune.



1. Peel off the bean-shaped seed paper from the cover.



2. Soak the seed paper in water for 3 hours until the seed paper becomes soft.



5. Water daily to keep the soil moist. After the seeds germinate, leave it under sunlight for 3 hours per day.



4. Put the wet seed paper in the flowerpot and cover with a thin layer of soil.



3. Prepare a flowerpot with two-third full of good potting soil.



GROWING FORTUNE

GROWING FORTUNE IN A SUSTAINABLE WAY

Similar to growing peonies, Fortune REIT also goes through various stages of development – cultivating professionalism, excellence and competitive presence in the market and delivering sustainable returns to our Unitholders. Our core competence and diligent execution in asset management, enhancement and investment has nurtured the steady, sturdy and sustainable growth of Fortune REIT.

The peony is recognised as the Flower of Fortune and embodies worthiness, wealth and well-being. The seed paper in the middle on the cover of our 2017 Annual Report is embedded with peony seeds. Following the instructions on the opposite page, let's join hands to blossom your own personal **FORTUNE** !



Seeding Growth

Flourishing Blossom



Sharing Harvest

**Cultivating through
Reinvesting**

ABOUT FORTUNE REIT

Fortune Real Estate Investment Trust (“**Fortune REIT**”) is a real estate investment trust constituted by a trust deed (the “**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 (the “**SEHK**”) and secondary listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Fortune REIT is Asia’s first cross-border REIT and also the first REIT to hold assets in Hong Kong. As at 31 December 2017, Fortune REIT held a portfolio of 17 private housing estate retail properties in Hong Kong comprising of 3.18 million square feet (“**Sq.ft.**”) of retail space and 2,713 carparking spaces.



OUR MISSION

The Manager’s key objective is to deliver regular and stable returns to holders of Fortune REIT units (“**Unitholders**”) through proactive management of Fortune REIT’s portfolio of assets and acquiring properties that generate long term benefits to Unitholders.





ABOUT THE MANAGER

Fortune REIT is managed by ARA Asset Management (Fortune) Limited, a wholly-owned subsidiary of ARA Asset Management Limited (“ARA”), a premier integrated real estate fund manager driven by a vision to be the best-in-class real estate fund management company focused on the management of real estate investment trusts (“REITs”) and private real estate funds.

Established in 2002, to date ARA has approximately 1,300 staff in 21 cities in eight countries. ARA manages over 90 properties measuring 57 million Sq.ft. in Asia Pacific, with approximately S\$40 billion in assets under management.



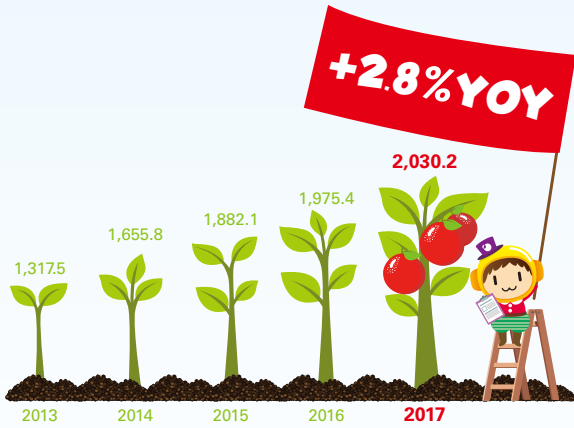
置富都會
Fortune Metropolis

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FINANCIAL HIGHLIGHTS

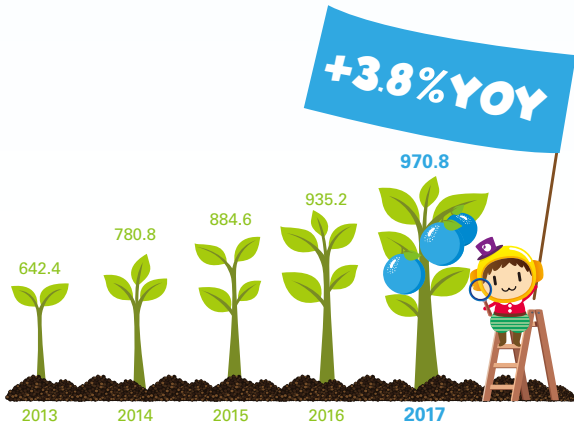
GROSS REVENUE (HK\$M)



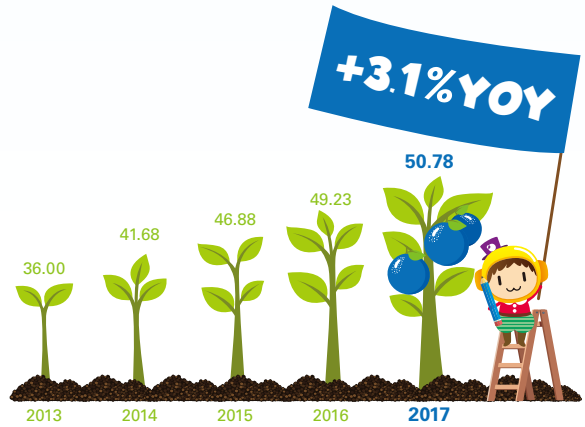
NET PROPERTY INCOME (HK\$M)



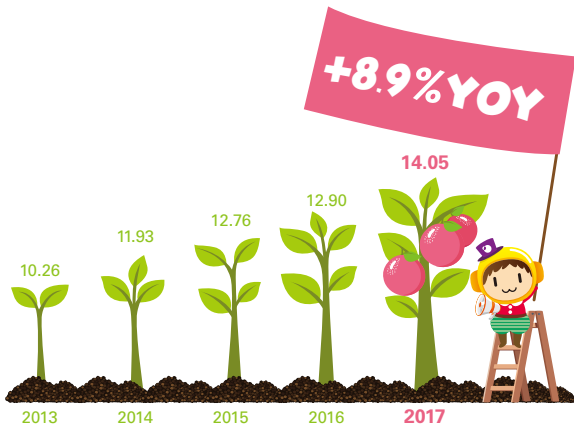
INCOME AVAILABLE FOR DISTRIBUTION (HK\$M)



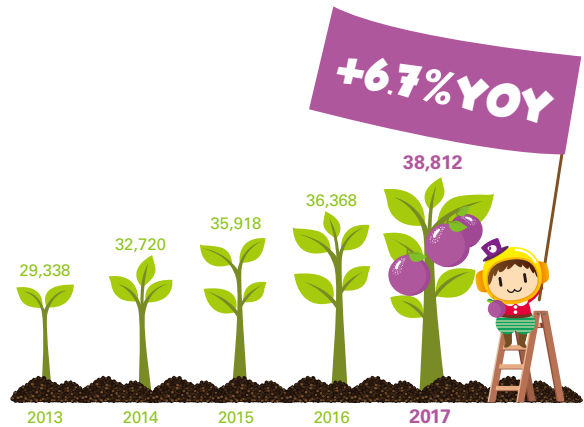
DISTRIBUTION PER UNIT (HK cents)



NET ASSET VALUE PER UNIT (HK\$)



PROPERTY VALUATION (HK\$M)

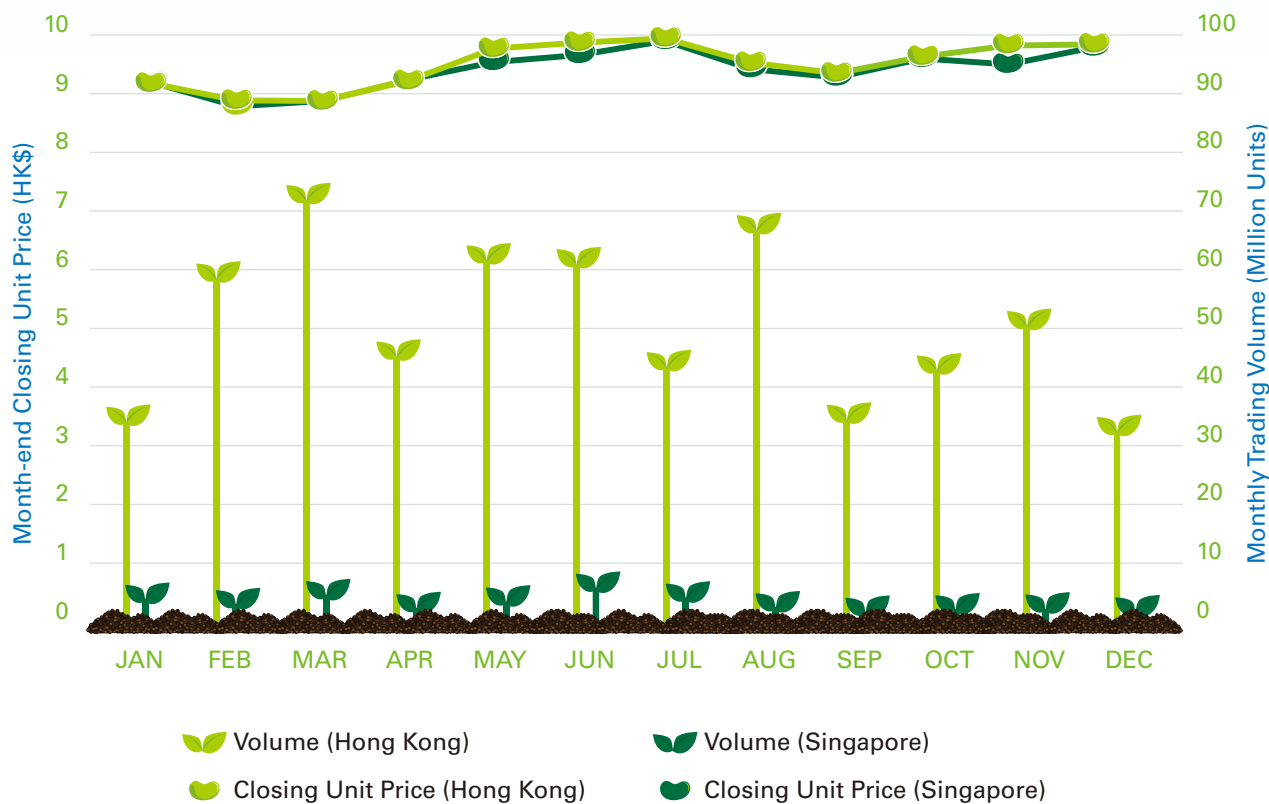


UNIT PERFORMANCE

	Singapore	Hong Kong
Opening unit price (3 January 2017)	HK\$8.71	HK\$8.91
Closing unit price (29 December 2017)	HK\$9.61	HK\$9.66
Intraday high	HK\$9.80 (26 July 2017)	HK\$9.82 (25 July 2017)
Intraday low	HK\$8.30 (8 March 2017)	HK\$8.52 (13 and 14 March 2017)
Total volume traded	30,050,200 Units	598,870,040 Units



MONTHLY TRADING PERFORMANCE





2017 CORPORATE MILESTONES



January 26

Announced financial results for the full year 2016. Total revenue and distributable income rose 5.0% and 5.7% year-on-year respectively.

March 1

A final DPU of 24.45 Hong Kong cents for the six months ended 31 December 2016 was paid.

March 13

Fortune REIT entered into new 5-year loan facilities of HK\$1,200 million to refinance all debts due in 2018.

April 6

Fortune REIT has been broadly recognized in five categories within "Asia's Best Companies Poll 2017".





April 27

The 2017 annual general meeting was held in Singapore, where unitholders in Hong Kong also participated via video conference. All resolutions were duly passed.



July 28

Announced financial results for the six months ended 30 June 2017. Total revenue and distributable income rose 2.5% and 3.7% year-on-year respectively.



August 29

An interim DPU of 25.53 Hong Kong cents for the six months ended 30 June 2017 was paid.



December 19

Announced the disposal of Provident Square for HK\$2.0 billion at 88.5% premium over appraised value.



CHAIRMAN'S REPORT



DEAR UNITHOLDERS,

We have closed 2017 with a record-high revenue and distribution, and are now looking towards a good start for 2018. Yet, the operating environment during the Reporting Year has not been without challenges. We are proud to have once again weathered through the market uncertainties and extended our continuous growth to 14 years since listing.

Chui Sing Loi (alias Tsui Sing Loi)
Chairman





CHAIRMAN'S REPORT

On behalf of the Board of Directors (the “**Board**”), I am pleased to present the annual results of Fortune REIT for the financial year ended 31 December 2017 (“**FY2017**” or the “**Reporting Year**”).

FOURTEEN YEARS OF CONSECUTIVE GROWTH DEMONSTRATE PROVEN RESILIENCE

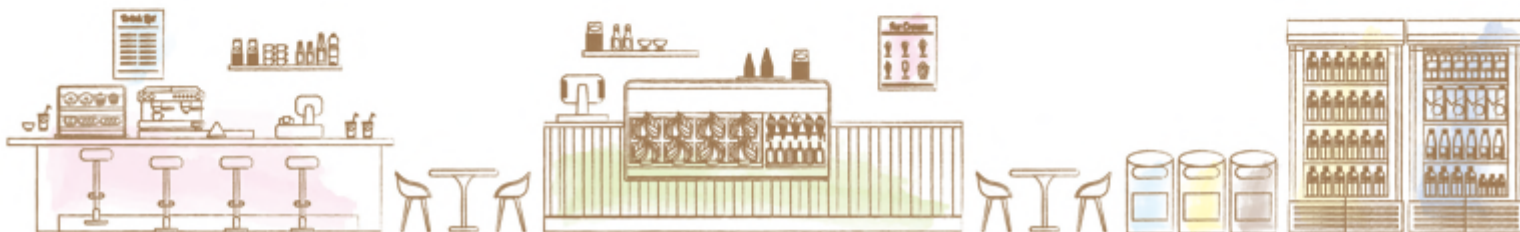
The Hong Kong retail market has shrugged off an extended setback for almost three years and showed signs of improvement going into 2017. The retail market has been largely stable during the first half and gradually picking up momentum in the second half of the year. Retail sales registered a moderate growth of 1.8% year-on-year for the first 11 months of 2017 and a 7.5% year-on-year increase for the month of November 2017 alone. It is an encouraging signal that the retail market recovery is going in a positive way.

We have closed 2017 with a record-high revenue and distribution, and are now looking towards a good start for 2018. Yet, the operating environment during the Reporting Year has not been without challenges. We are proud to have once again weathered through the market uncertainties and extended our continuous growth to 14 years since listing. In 2017, total revenue and net property income achieved record highs of

HK\$2,030.2 million and 1,456.7 million, representing a year-on-year increase of 2.8% and 3.3% respectively. Distribution per unit (“**DPU**”) was up by 3.1% year-on-year to 50.78 HK cents for FY2017.

SOLID OPERATIONAL PERFORMANCE

Fortune REIT’s portfolio of neighborhood malls are mostly located within large-scale private residential estates along mass transit railway lines across Hong Kong. A proactive approach in managing our shopping malls on an ongoing basis not only enables us to accommodate rapidly changing consumer needs, but also builds strong resilience for our retail portfolios. In addition to regular refinement of tenant mix, we also complement the shopping experience with effective festive promotions and attentive management services. Due to these measures, we are pleased that Fortune Malls has continued to record satisfactory performance during the Reporting Year, evidenced by its high occupancy and continued growth in rental rates on renewals and new leases. Portfolio occupancy has improved to 98.1% as at 31 December 2017. Rental reversion for the renewals was also positive during the Reporting Year, with an average increase of 12.8%. These performances clearly reflected tenants’ endorsement of Fortune Malls as their preferred place for business.



CHAIRMAN'S REPORT

STRATEGIC DISPOSAL AT OPPORTUNE TIME TO UNLOCK VALUE

As a responsible Manager, we constantly review our portfolio and strive to maximise return for our Unitholders. We are very pleased to have captured yet another great opportunity to reap good profit through the strategic disposal of Provident Square announced in December 2017. Provident Square was one of the two properties acquired in February 2012. With the disposal amount of HK\$2,000 million, we have unlocked enormous value for our Unitholders as the property was sold at over 3 times its purchase price five years ago and at 88.5% premium over the appraised value. A disposal gain of HK\$921 million will be recorded upon completion on 28 February 2018. Loss of income due to the disposal is expected to be immaterial to Fortune REIT's overall results in 2018.

SET TO SPARK A NEW GROWTH CATALYST

To ensure our shopping malls stay relevant to the changing consumer behavior is key to Fortune REIT's success in maintaining a leading position in operating its portfolio of neighborhood malls. We always look for opportunities to enhance the productivity of our assets and have achieved great success in revitalising some key assets. We aim to extend our track record in Asset Enhancement Initiatives ("AEIs") with our largest asset, Fortune Kingswood next in the pipeline.

With a total gross rentable floor area of 665,244 Sq.ft. and serving its immediate catchment of approximately 16,500 households in Kingswood Villas as one of Hong Kong's largest residential developments, Fortune Kingswood has been the shopping hub of Tin Shui Wai since its completion in 1996. The Tin Shui Wai and





CHAIRMAN'S REPORT

Yuen Long area have seen big demographic changes in the past decade, with plenty of new residential developments supported by new infrastructure and improved accessibility. Against such a favourable backdrop, Fortune Kingswood is set to embark on major AEs in 2018 to realise its full potential. Upon completion, Fortune Kingswood will not only fulfil daily needs of the nearby residents but also attract shoppers from the greater Yuen Long area with its enriched food and beverage offerings and a new leisure shopping experience.

PRUDENT AND PROACTIVE CAPITAL MANAGEMENT

We continue to adopt a prudent financial management approach which has been part and parcel of Fortune REIT's success over the years. During the Reporting Year, we successfully arranged a HK\$1,200.0 million unsecured banking facility with a 5-year tenor to refinance all debts due in 2018 at a lower cost. The financing arrangement was in line with the policy of extending debt maturity, procuring abundant undrawn committed banking facilities and increasing the proportion of unsecured facilities for more financial flexibility. At a gearing ratio of 27.4%, Fortune REIT possesses ample debt headroom for expansion opportunities.

A BRIGHTER OUTLOOK

The global economic growth trajectory looks set to continue in a modest way with inflation anticipated to be well under control. Nonetheless, uncertainties over normalisation of monetary policies in most of the developed countries coupled with continuous geopolitical tensions in certain areas may pose downside risk to global growth and affect the stability of the financial market. In Hong Kong, consumer sentiment is likely to remain solid amid a healthy job market as well as the rallies in the housing and stock markets. Building on the strong foundation of our retail malls portfolio and a prudent capital structure, coupled with the consistent execution of our three core strategies of proactive leasing management, AEs and yield-accretive acquisitions, Fortune REIT is well-equipped to take on the opportunities and challenges ahead.

APPRECIATION

On behalf of the Board, I would like to extend my warmest welcome to Ms. Koh Poh Wah who joined the Board as an Independent Non-Executive Director during the Reporting Year.

In closing, I would like to express my gratitude to my fellow board members for their guidance, to all staff for their dedication and hard work, and to all our Unitholders, trustee, business partners and customers for their continuous support to Fortune REIT.



Chui Sing Loi (alias Tsui Sing Loi)

Chairman

ARA Asset Management (Fortune) Limited

As Manager of Fortune REIT



Three core strategies as

SEEDS

The strategies of active leasing management, asset enhancement and yield-accretive acquisitions have allowed us to pursue opportunities in a prudent way and grow in a sustainable manner over the years.



**Active leasing
management**



**Asset
enhancement
initiatives**



**Yield-accretive
acquisitions**

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Fortune REIT's FY2017 total revenue and net property income rose by 2.8% and 3.3% year-on-year to HK\$2,030.2 million and HK\$1,456.7 million respectively. The growth was attributable to improved occupancy and healthy rental reversion across the portfolio.

Total property operating expenses for FY2017 (excluding the Manager's performance fee) increased by 1.2% year-on-year to HK\$528.3 million. Our continued efforts in energy saving have borne fruit, resulting in reduced electricity consumption and lower utility expenses during the Reporting Year. Cost-to-revenue ratio improved further to 26.0% (2016: 26.4%).

Income available for distribution for FY2017 was HK\$970.8 million, representing a year-on-year increase of 3.8%. The DPU for the Reporting Year was 50.78 HK cents, 3.1% more than that in the previous year (2016: 49.23 HK cents). Comprising an interim and final DPU of 25.53 HK cents and 25.25 HK cents respectively, the FY2017 DPU represented a yield of 5.3% based on the closing unit price of HK\$9.66 in Hong Kong as at 29 December 2017.

Final Distribution

The final DPU of 25.25 HK cents for the six months ended 31 December 2017 will be paid on 28 February 2018 to Unitholders on the registers of Unitholders of Fortune REIT as at 7 February 2018.

Financial Position Remained Strong

In April 2017, we capitalised on the ample liquidity in the Hong Kong banking system and arranged a HK\$1,200.0 million unsecured banking facility with a 5-year tenor to refinance all the debt due in 2018. The effective borrowing cost for the Reporting Year was 2.47% (2016: 2.40%).

As at 31 December 2017, total committed loan facilities amounted to HK\$11,155.1 million. The gearing ratio and aggregate leverage decreased to 27.4% (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 32.1% as at 31 December 2017 (2016: 33.8%).

Fortune REIT has obtained both secured and unsecured loan facilities. The secured loan facilities



**DISTRIBUTION
YIELD**

5.3%



are secured over 5 of its investment properties, which carried an aggregate fair value of HK\$10,283.0 million as at 31 December 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 more financial flexibility. As at 31 December 2017, approximately 70% of total committed debts were unsecured. The Trustee has provided guarantees for all of the loan facilities.

Available liquidity stood at HK\$1,216.0 million as at 31 December 2017, comprising committed but undrawn facilities of HK\$700.0 million and cash on hand of HK\$516.0 million. Fortune REIT currently possesses sufficient financial capability to satisfy its financial commitment and working capital requirements.

As at 31 December 2017, the interest cost for approximately 60% (2016: 67%) of Fortune REIT's

outstanding debts was hedged through interest rate swaps and caps. The Manager would continue to closely monitor the interest rate movements and optimise Fortune REIT's hedging profile when the opportunity arises.

Net asset value per unit amounted to HK\$14.05 as at 31 December 2017, up 8.9% from HK\$12.90 at the end of 2016.

Portfolio Valuation

As at 31 December 2017, Fortune REIT's portfolio of 17 retail properties was appraised at HK\$38,812 million by Knight Frank Petty Limited. This represents an increase of 6.7% and 3.5% from the valuation as at 31 December 2016 and 30 June 2017 respectively. The higher valuation has resulted in a revaluation gain of HK\$2,391.5 million for the Reporting Year.

BUSINESS REVIEW

The Hong Kong retail market has recovered from a three-year contraction, with the retail sales growth staying positive for nine consecutive months since March 2017. The improved retail market conditions have added leasing momentum at Fortune Malls.

DPU
50.78
HK Cents
+3.1%

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2017, the occupancy rate of our portfolio improved to 98.1% (2016: 96.7%). A rental reversion of 12.8% was recorded for renewals during FY2017, accelerated from 10.7% in the first half of 2017. Tenant retention rate remained high at 78%, demonstrating Fortune Malls' proven attractiveness as retailers' preferred place for business.

The portfolio currently has a total of 1,392 tenants, of which the top 10 together contributed approximately 27.8% of the portfolio's gross rental income and occupied approximately 22.4% of total GRA as at 31 December 2017. Tenants in the non-discretionary trades such as supermarkets, food and beverages as well as services and education accounted for approximately 70% of total GRA. We have continued to see healthy leasing demand from these sectors and they remain the core of Fortune Malls driving its long-term resilience, assuring safe navigation through economic cycles. The Manager continues to focus on retaining quality tenants, securing early commitment to renewal before leases expire, as well as optimising the tenant mix at opportune times.

Largest-ever AEs at Fortune Kingswood to Drive Growth

Fortune Kingswood is currently the largest asset of Fortune REIT, contributing 18.5% of portfolio revenue in 2017. The property has been the growth engine for

Fortune REIT since its acquisition in 2013. Completed in 1996 but without any renovation since, Fortune Kingswood inevitably has a lot of potential to be unlocked for being the largest shopping mall within Tin Shui Wai. In order to reach out to the expanding catchment in the greater Yuen Long area, the Manager has been planning for a major asset enhancement in the past two years to reposition Fortune Kingswood into a regional shopping and entertainment hub. With a thorough planning and the solid recovery of the retail market seen in recent months, we believe that now is the right time to kick-start the project. The first phase of the project, involving the West Block and a capex of approximately HK\$150 million, is expected to commence in the second quarter of 2018. We are optimistic that Fortune Kingswood will continue to fuel further growth for Fortune REIT's portfolio.

Strengthen Financial Position to Pursue Investment Opportunities

We constantly review our asset portfolio with a view to optimise returns for our Unitholders. On 19 December 2017, Fortune REIT announced the disposal of Provident Square for HK\$2,000 million at 1.8% yield. Tremendous value has been created during the asset's five-year holding period as it was disposed at 3.1 times its purchase price and 88.5% over its appraised value as at 30 November 2017. The disposal is expected to record a gain of HK\$921 million upon completion

**RENTAL
REVERSION
+12.8%**



MANAGEMENT DISCUSSION AND ANALYSIS

on 28 February 2018. Proceeds would be used for potential AEs and acquisition opportunities, in addition to general working capital purposes including debt repayment. With a reduced gearing upon completion, Fortune REIT will have greater financial capability to pursue higher-yielding opportunities going forward.

Our Commitment to Corporate Social Responsibility

We implemented various initiatives to fulfill our environmental, social and governance (“ESG”) responsibility during the Reporting Year. A discussion on our environmental policies, relationships with key stakeholders and compliance with relevant laws and regulations bearing significantly on Fortune REIT are provided in the “Corporate Governance Policies”, “Independent Auditors’ Report” and “ESG Review” sections of this annual report.

OUTLOOK

The Hong Kong economy continued to expand notably by 3.6% year-on-year in the third quarter of 2017, following the 4.1% growth in the first half of the year. Private consumption has briskly expanded by 6.7% year-on-year in the third quarter. Stronger economic growth has supported steady local consumption demand while the revival of inbound tourism has further boosted the retail market. Overall, the Hong Kong retail market recorded a growth of 1.8% year-on-year for the first 11 months of 2017. Growth in retail sales has been picking up momentum in recent months, led mainly by the luxury sectors while non-discretionary sectors continued to register a mild increase. The wealth effect from the housing and stock market rally

is also likely to have a positive impact on consumer confidence. We believe the Hong Kong retail market is on track for a healthy recovery and Fortune REIT’s portfolio is in a good position to benefit from the retail uptrend.

U.S. interest rate normalisation as well as tapering of its Federal Reserve’s balance sheet are expected to continue, but in a gradual manner. Our prudent capital management will cushion the resulting potential financial impact as interest cost on 60% of our outstanding debts has been hedged.

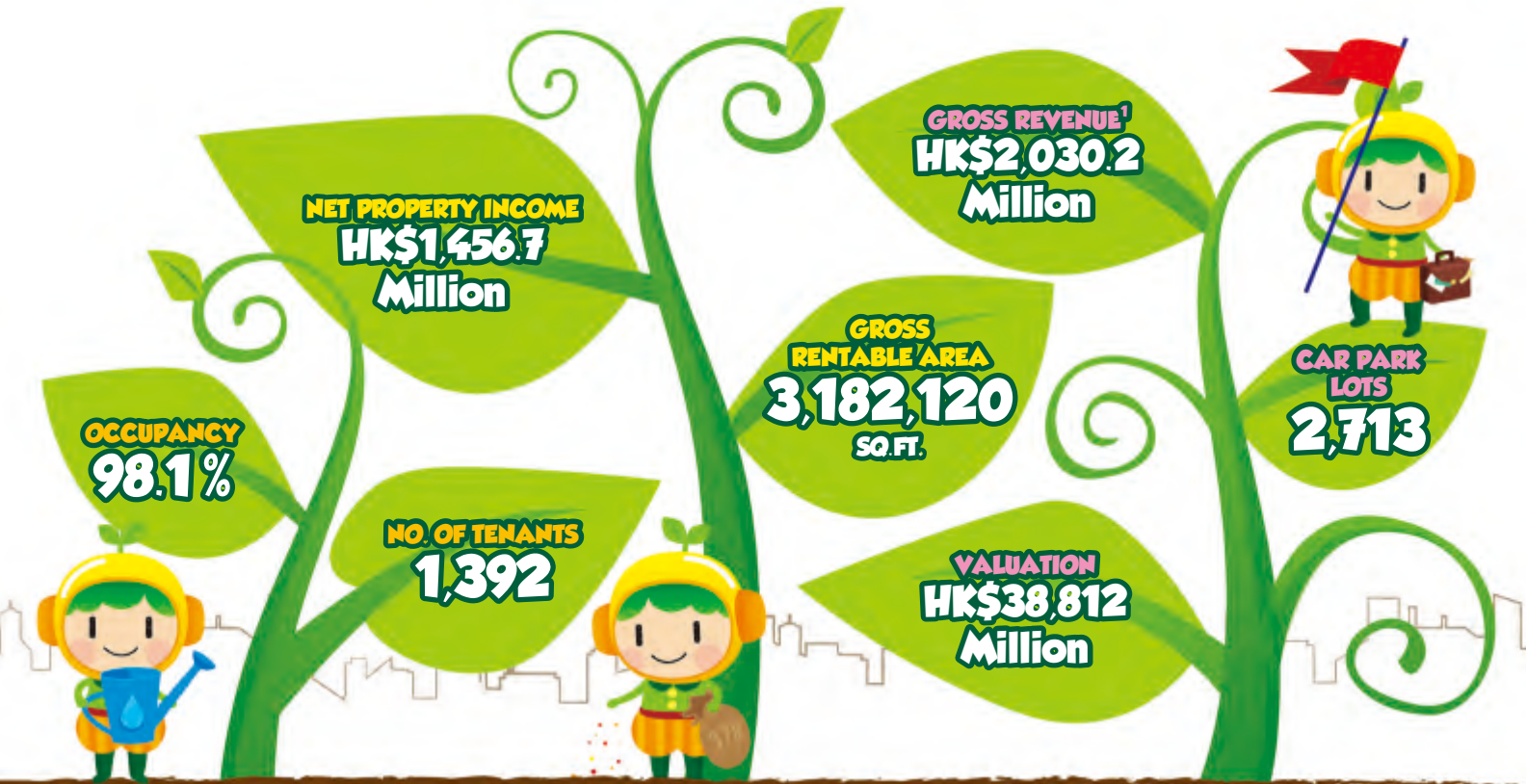
Fortune REIT has a proven track record in driving sustainable returns to the Unitholders through different economic cycles. We will continue to build on the strong foundation of our portfolio, execute an effective leasing strategy, add value to our malls through AEs and trade mix optimisation, seek yield-accretive investment opportunities and maintain a healthy capital structure.



**OCCUPANCY
RATE
98.1%**

PORTFOLIO KEY STATISTICS

As at 31 December 2017



Portfolio Top 10 Tenants		Trade Sector	% of Total Gross Rental Income ²	% of Total Gross Rentable Area
1	PARKnSHOP	Supermarkets	7.3%	10.8%
2	Centaline Property Agency Limited	Banking & Real Estate Services	5.0%	0.7%
3	Midland Realty	Banking & Real Estate Services	3.3%	0.4%
4	Ricacorp Properties Limited	Banking & Real Estate Services	2.3%	0.3%
5	Bank of China (Hong Kong) Limited	Banking & Real Estate Services	2.2%	1.1%
6	Fairwood Fast Food	Food & Beverages	2.0%	1.7%
7	Cheung Kong Property Development Limited	Banking & Real Estate Services	1.9%	3.5%
8	Watsons	Services & Education	1.4%	1.1%
9	7-Eleven	Services & Education	1.3%	0.6%
10	Ho Yin Seafood Restaurant	Food & Beverages	1.1%	2.2%
Total			27.8%	22.4%

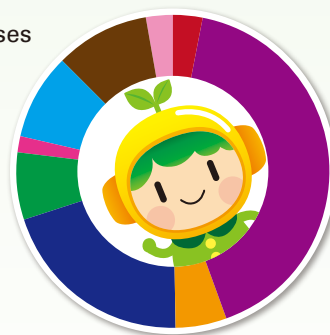
Notes:

- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
- Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.

PORTFOLIO KEY STATISTICS

Portfolio Lease Expiry Profile^{1, 2}Breakdown of Portfolio Property Operating Expenses³

3.1%	Advertising and Promotion
41.5%	Building Management Expenses
5.3%	Carpark Operating Expenses
20.3%	Government Rents and Rates
6.9%	Leasing Commission and Marketing Services Fee
1.7%	Legal and Other Professional Fees
8.9%	Property Manager Fee
9.7%	Utilities
2.6%	Others

Portfolio Tenant Trade Mix Analysis¹

21.3%	Banking & Real Estate Services	3.7%	Homewares & Home Furnishings
1.0%	Community Services	2.9%	Leisure & Entertainment, Sports & Fitness
1.9%	Electronics & IT	22.3%	Services & Education
5.5%	Fashion & Shoes	8.0%	Supermarkets
24.7%	Food & Beverages	1.1%	Wet Markets
4.6%	Gifts & Speciality, Hobbies, Toys, Jewellery	3.0%	Others

Portfolio Analysis by Net Property Income³

18.3%	Fortune City One	2.5%	Provident Square
19.0%	Fortune Kingswood	2.3%	Jubilee Square
15.3%	Ma On Shan Plaza	1.9%	Smartland
8.9%	Metro Town	1.9%	Tsing Yi Square
6.3%	Fortune Metropolis	0.4%	Hampton Loft
6.3%	Laguna Plaza	0.8%	Centre de Laguna
6.9%	Belvedere Square	0.6%	Lido Avenue
4.9%	Waldorf Avenue	0.4%	Rhine Avenue
3.3%	Caribbean Square		



Notes:

- Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.
- As at 31 December 2017, the weighted average lease expiry of Fortune REIT was 1.5 years. For the new leases commencing during FY2017, the weighted average lease expiry based on the date of commencement of the leases was 2.0 years and represented 47.0% of the gross rental for the month of December 2017.
- For the financial year ended 31 December 2017.

ADVERTISING AND PROMOTIONS

Fortune Malls is not only an excellent shopping and dining destination, it also aims to bring families and communities closer together. During 2017, a series of innovative marketing campaigns, including popular cartoon characters, themed interactive activities and festive decorations, were organized to enrich the shopping experience and enhance customer loyalty at Fortune Malls.







14-years of prosperity in
BLOSSOM

With a portfolio of neighbourhood shopping malls in Hong Kong, the non-discretionary retail sector will remain the core of Fortune Malls driving our long term growth through economic cycles.



OUR BRAND

FORTUNE IN YOUR EVERYDAY LIFE

Fortune Malls believes everyone should have a place where they belong. To achieve this, we offer a warm and comfortable environment, with a few thoughtful and surprising touches, so our shoppers can take a comfortable break from the bustle of urban life.

AN ADDED DIMENSION TO DAILY SHOPPING

More than a spot for daily shopping, Fortune Malls provides venues for the neighbourhood to enjoy their weekends and holidays. Festive promotional activities and incentive campaigns are often arranged to make the shopping experience at Fortune Malls memorable, rewarding and always fun.

THE FORTUNE MALLS LOGO

Fortune Malls shares the identity of the “red planet” icon as its master brand – Fortune REIT. The portrayal of a “small planet on a big planet” represents the idea of “sharing your world”. Fortune Malls leads the brand with a new purple colour, which expresses a sense of welcoming and warmth to the identity. Different colours of Portfolio Malls embrace the unique ambience and feeling of individual malls.



OUR BRAND

FLAGSHIP MALLS

置富第一城 
Fortune City One

置富嘉湖 
Fortune Kingswood

置富都會 
Fortune Metropolis

PORTFOLIO MALLS

馬鞍山廣場 
Ma On Shan Plaza

都會駅 
Metro Town

麗港城商場 
Loguna Plaza

麗城薈 
Belvedere Square

華都大道 
Waldorf Avenue

映灣薈 
Caribbean Square

和富薈 
Provident Square

銀禧薈 
Jubilee Square

荃薈 
Smartland

青怡薈 
Tsing Yi Square

城中薈 
Centre de Laguna

凱帆薈 
Hampton Loft

麗都大道 
Lido Avenue

海韻大道 
Rhine Avenue



FORTUNE REIT'S PORTFOLIO

PORTFOLIO AT A GLANCE

As at 31 December 2017, Fortune REIT held a portfolio of 17 private housing estate retail properties in Hong Kong, comprising of 3.18 million Sq.ft. of retail space and 2,713 car parking spaces.

	As at 31 December 2017	Location	Gross Rentable Area (Sq.ft.)	Occupancy	Number of Car Parking Lots	Valuation (HK\$ million)	FY2017 Net Property Income (HK\$ million)
1	Fortune City One	Shatin	414,469	98.4%	653	7,939	266.8
2	Fortune Kingswood	Tin Shui Wai	665,244	95.8%	622	7,462	278.2
3	Ma On Shan Plaza	Shatin	310,084	99.0%	290	5,489	222.6
4	Metro Town	Tseung Kwan O	180,822	100%	74	3,590	129.7
5	Fortune Metropolis	Hung Hom	332,168	98.4%	179	2,557	91.6
6	Laguna Plaza	Kwun Tong	163,203	96.4%	150	2,450	91.2
7	Belvedere Square	Tsuen Wan	276,862	99.6%	329	2,370	101.1
8	Waldorf Avenue	Tuen Mun	80,842	100%	73	1,651	71.3
9	Caribbean Square	Tung Chung	63,018	100%	117	1,080	48.0
10	Provident Square ¹	North Point	180,238	98.1%	N.A.	1,061	37.0
11	Jubilee Square	Shatin	170,616	97.8%	97	892	33.6
12	Smartland	Tsuen Wan	123,544	97.5%	67	723	27.3
13	Tsing Yi Square	Tsing Yi	78,836	100%	27	656	27.5
14	Centre de Laguna	Kwun Tong	43,000	98.9%	N.A.	299	11.5
15	Hampton Loft	West Kowloon	74,734	100%	35	283	5.8
16	Lido Avenue	Tsuen Wan	9,836	100%	N.A.	190	8.4
17	Rhine Avenue	Tsuen Wan	14,604	100%	N.A.	120	5.1
Total/Overall Average			3,182,120	98.1%	2,713	38,812	1,456.7

Note:

1. The disposal of Provident Square is expected to be completed on 28 February 2018.



1 Fortune City One

2 Fortune Kingswood

5 Fortune Metropolis

3 Ma On Shan Plaza

4 Metro Town

6 Laguna Plaza

7 Belvedere Square

8 Waldorf Avenue

9 Caribbean Square

10 Provident Square

11 Jubilee Square

12 Smartland

13 Tsing Yi Square

14 Centre de Laguna

15 Hampton Loft

16 Lido Avenue

17 Rhine Avenue

1 置富第一城

Fortune City One

Fortune City One, located in Shatin, New Territories and south of the Shing Mun River, is the commercial constituent of the 10,642-unit City One Shatin residential development. The City One Shatin residential development was completed in the 1980s and is one of the largest residential developments in Hong Kong. Fortune City One serves the daily needs of the local City One Shatin residents, as well as residents from other developments in the vicinity. The catchment population consists of young families, students and workers in the area.

Fortune City One can be easily accessed by private and public transportation. It is strategically located near City One MTR Station and in close proximity to the Shatin MTR Station.



Key Statistics (as at 31 December 2017)

Occupancy	98.4% (2016: 98.4%)
Purchase Price	HK\$2,559 million
Market Valuation	HK\$7,939 million
Gross Revenue ¹	HK\$371.3 million (2016: HK\$364.0 million)
Net Property Income	HK\$266.8 million

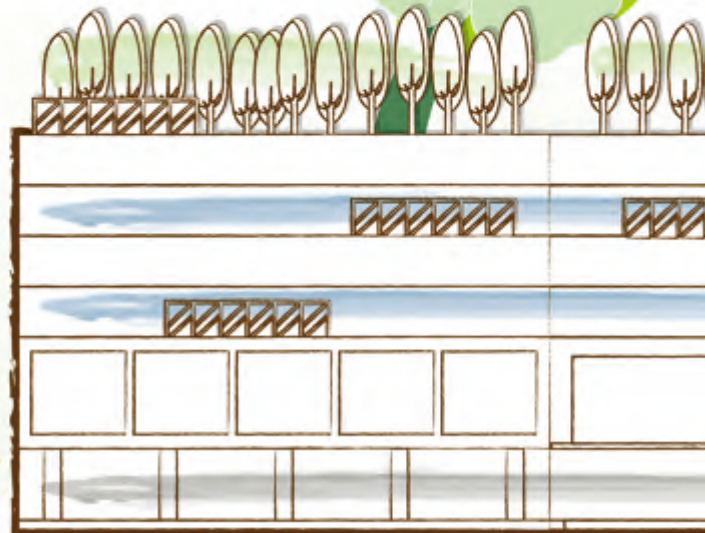
MALL FEATURES

COMPLETED IN
1981-1989

CITY ONE
MTR
STATION

TOTAL GFA
414,469
Sq.ft.

Fortune
City One
Piazza



27,532

Sq.ft.
WET MARKET

653

PARKING
LOTS

253

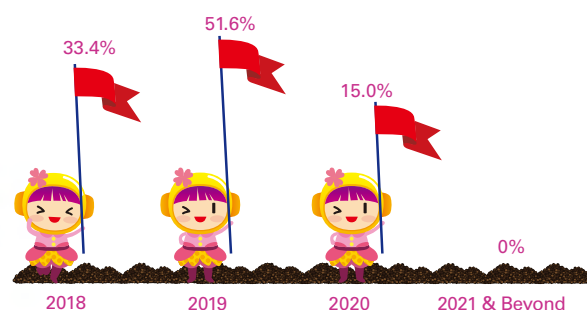
TENANTS



Tenant Trade Mix Analysis²

Banking & Real Estate Services	17.8%
Community Services	1.2%
Electronics & IT	2.4%
Fashion & Shoes	4.0%
Food & Beverages	31.5%
Gifts & Speciality, Hobbies, Toys, Jewellery	4.3%
Homeware & Home Furnishing	3.2%
Leisure & Entertainment, Sports & Fitness	1.0%
Services & Education	22.8%
Supermarkets	6.0%
Wet Markets	4.1%
Others	1.7%

Lease Expiry Profile²



Notes:

- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
- Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.

置富第一城

Fortune City One



2

置富嘉湖

Fortune Kingswood

Fortune Kingswood is located in Tin Shui Wai, within the Yuen Long District in the New Territories, one of the biggest new towns in Hong Kong. Being the largest shopping center in Tin Shui Wai, the property serves a catchment of close to 288,000 people, the hotel residents of the 1,102-room Harbour Plaza Resort City, as well as visitors from Mainland China due to its close proximity to the border. Fortune Kingswood is located only 15 minutes away from the Wetland Park via Light Rail Transit, which is a key tourist spot for both local and overseas visitors.



Key Statistics (as at 31 December 2017)

Occupancy	95.8% (2016: 98.4%)
Purchase Price	HK\$5,849 million
Market Valuation	HK\$7,462 million
Gross Revenue ¹	HK\$375.8 million (2016: HK\$367.5 million)
Net Property Income	HK\$278.2 million

MALL FEATURES

180
TENANTS

OVER 40
LOADING/
UNLOADING
BAYS

LARGEST
SUPERMARKET
IN YUEN LONG

622
PARKING
LOTS

ADJOINING
2 HOTEL
TOWERS



**TIN SHUI WAI
MTR STATION**



**TOTAL GROSS
665,244
Sq.ft.**

**NEAR
WETLAND
PARK**

**COMPLETED IN
1999**

**4-house
Cineplex**

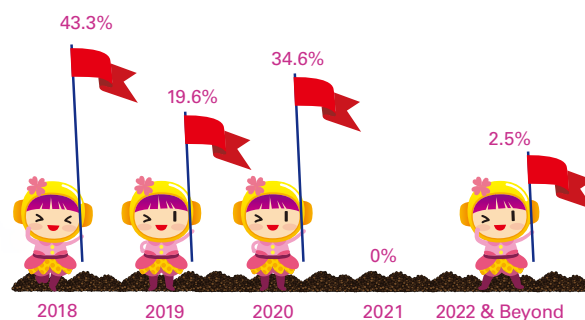
**置富嘉湖
Fortune Kingswood**



Tenant Trade Mix Analysis²

Banking & Real Estate Services	21.0%
Community Services	0.2%
Electronics & IT	2.5%
Fashion & Shoes	7.5%
Food & Beverages	22.0%
Gifts & Speciality, Hobbies, Toys, Jewellery	3.5%
Homeware & Home Furnishing	5.2%
Leisure & Entertainment, Sports & Fitness	4.0%
Services & Education	21.2%
Supermarkets	8.6%
Others	4.3%

Lease Expiry Profile²



Notes:

1. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
2. Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.



3 馬鞍山廣場

Ma On Shan Plaza

Ma On Shan Plaza is located in Ma On Shan, Shatin, New Territories, which is a well-established new town, and home to about 206,000 people.

Ma On Shan Plaza is directly connected to Ma On Shan MTR Station and is easily accessible by public transportation with bus terminals, a public light bus terminal, and a taxi waiting area. Ma On Shan Plaza is part of the 1,102-unit Bayshore Towers residential complex and is linked to the adjacent 4,760-unit Sunshine City residential development, as well as the 5.5-hectare Ma On Shan Park, by a number of covered footbridges.



Key Statistics (as at 31 December 2017)

Occupancy	99.0% (2016: 99.2%)
Purchase Price	HK\$934 million
Market Valuation	HK\$5,489 million
Gross Revenue ¹	HK\$294.4 million (2016: HK\$281.2 million)
Net Property Income	HK\$222.6 million

MALL FEATURES



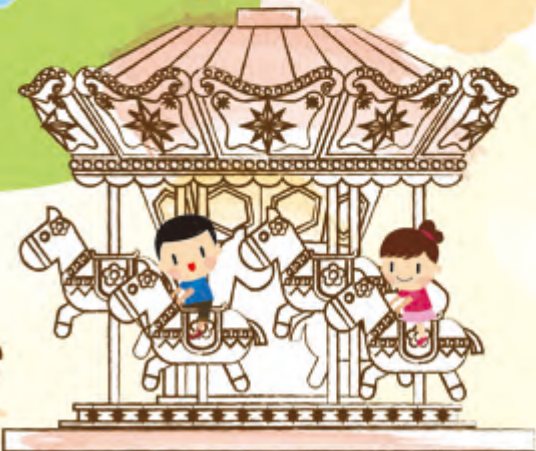
HONG KONG'S
ONLY
INDOOR
MERRY-GO-ROUND

MA ON SHAN
MTR
STATION

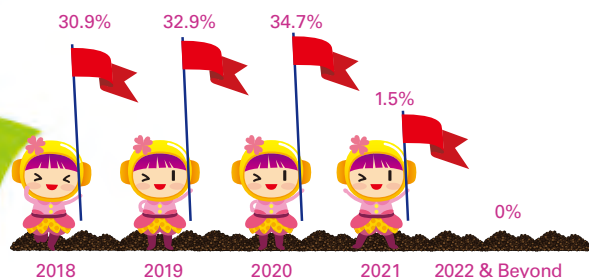
TOTAL GFA
310,084
Sq. ft.

290
PARKING
LOTS

138
TENANTS



Lease Expiry Profile²



Tenant Trade Mix Analysis²

Banking & Real Estate Services	35.4%
Electronics & IT	2.0%
Fashion & Shoes	6.9%
Food & Beverages	18.3%
Gifts & Speciality, Hobbies, Toys, Jewellery	5.3%
Homeware & Home Furnishing	2.6%
Leisure & Entertainment, Sports & Fitness	4.4%
Services & Education	14.4%
Supermarkets	6.8%
Others	3.9%

Notes:

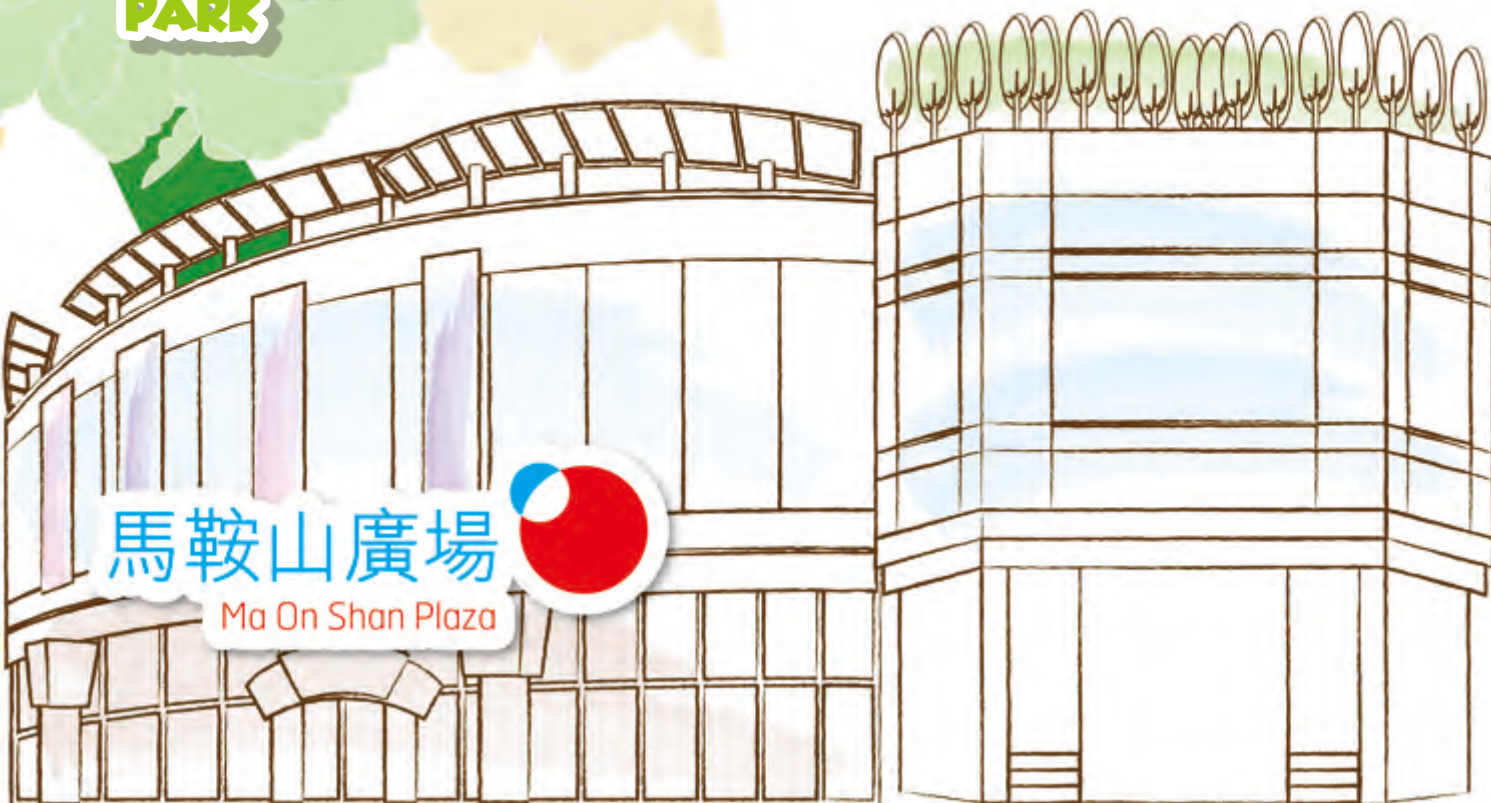
1. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
2. Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.

ADJOINING
MA ON SHAN
PARK

COMPLETED IN
1994

馬鞍山廣場

Ma On Shan Plaza





Metro Town is located on top of Tiu Keng Leng MTR Station which is an interchange for the Kwun Tong Line and the Tseung Kwan O Line. It is further connected via several pedestrian bridges to other large residential developments including Ocean Shore, Kin Ming Estate, Shin Ming Estate and Choi Ming Court, and institutions including Hong Kong Design Institute and Caritas Bianchi College of Careers. The ground floor of the mall links to a bus terminal connecting the Tiu Keng Leng area with other parts of Tseung Kwan O as well as the main urban areas of Hong Kong Island and Kowloon.



Key Statistics (as at 31 December 2017)

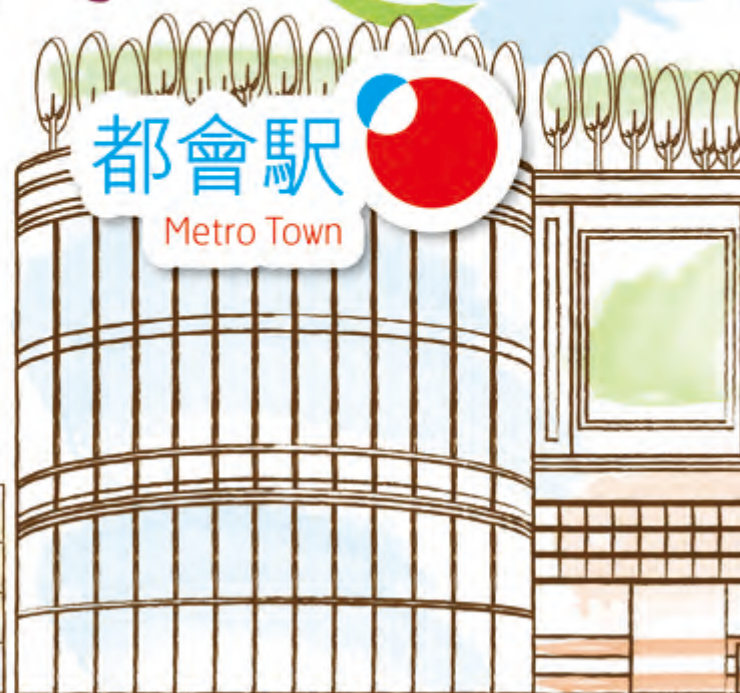
Occupancy	100% (2016: 100%)
Purchase Price	HK\$1,452 million
Market Valuation	HK\$3,590 million
Gross Revenue ¹	HK\$173.5 million (2016: HK\$169.2 million)
Net Property Income	HK\$129.7 million

MALL FEATURES

TIU KENG LENG
MTR STATION

102
TENANTS

74
PARKING
LOTS



ADJOINING HONG KONG DESIGN INSTITUTE

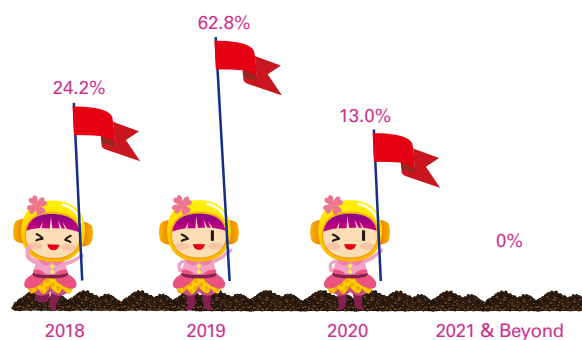
TOTAL GRA
180,822
Sq. ft.

COMPLETED IN
2006

Tenant Trade Mix Analysis²

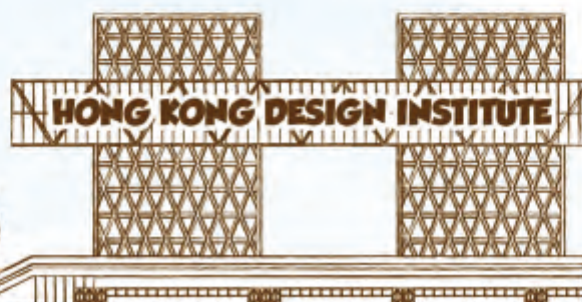
Banking & Real Estate Services	26.9%
Electronics & IT	0.9%
Fashion & Shoes	6.6%
Food & Beverages	20.8%
Gifts & Speciality, Hobbies, Toys, Jewellery	6.2%
Homeware & Home Furnishing	1.6%
Leisure & Entertainment, Sports & Fitness	1.7%
Services & Education	23.6%
Supermarkets	10.3%
Others	1.4%

Lease Expiry Profile²



Notes:

1. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
2. Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.



5

置富都會

Fortune Metropolis

Fortune Metropolis is located in the established residential and commercial hub of Hung Hom in South Kowloon. It is the retail portion of The Metropolis, a 1.4 million Sq.ft. complex comprising a retail mall, an office tower, a hotel and serviced apartments. It is directly connected to Hung Hom MTR Station and is in close proximity to the East Tsim Sha Tsui MTR Station. Moreover, Fortune Metropolis is served by the Hung Hom bus terminal and a taxi station, with the Kowloon entrance of the Cross Harbour Tunnel just minutes away.



Key Statistics (as at 31 December 2017)

Occupancy	98.4% (2016: 95.5%)
Purchase Price	HK\$1,464 million
Market Valuation	HK\$2,557 million
Gross Revenue ¹	HK\$148.7 million (2016: HK\$147.6 million)
Net Property Income	HK\$91.6 million

MALL FEATURES

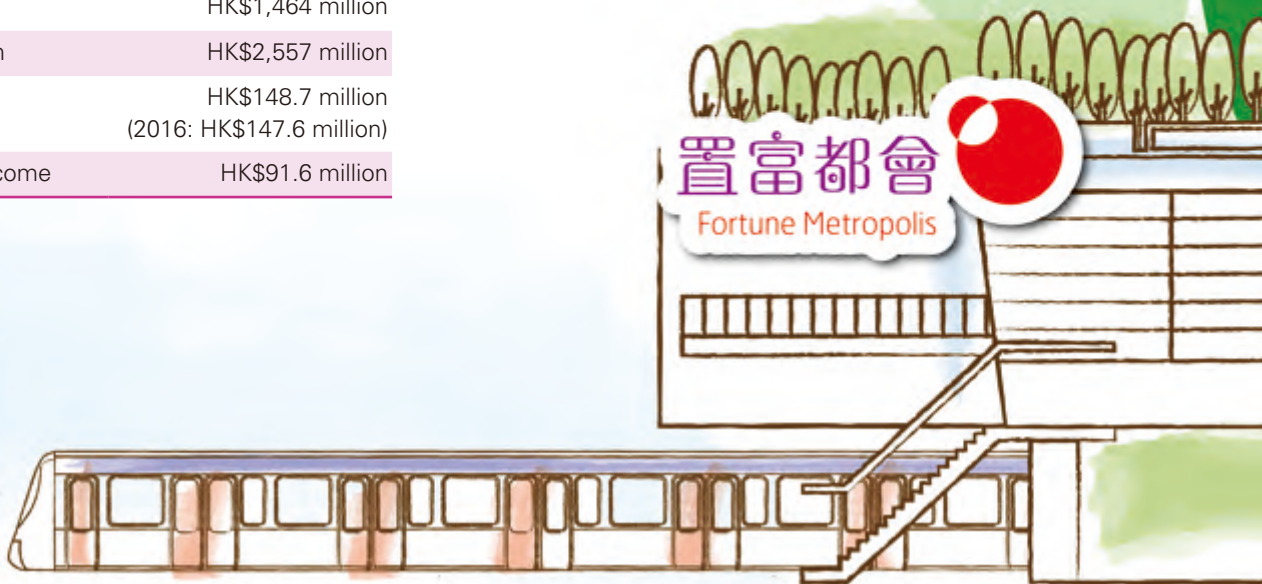
127
TENANTS

HUNG HOM
MTR
STATION

COMPLETED IN
2001

PART OF
SERVICED
APARTMENT/
OFFICE/HOTEL
COMPLEX

置富都會
Fortune Metropolis



179
PARKING
LOTS

700
SEATS FOOD
COURT

TOTAL GFA
332,168
Sq.ft.

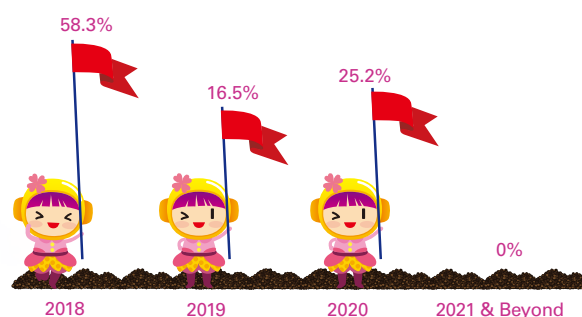
NEXT TO
HONG KONG
COLISEUM



Tenant Trade Mix Analysis²

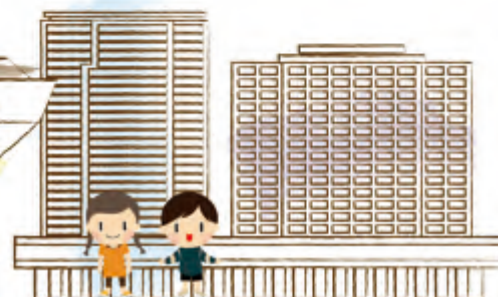
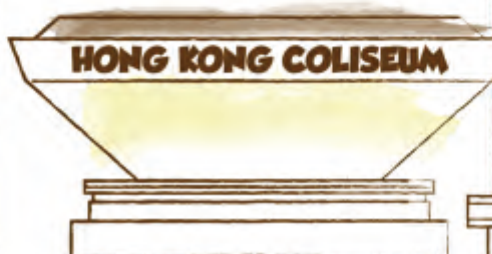
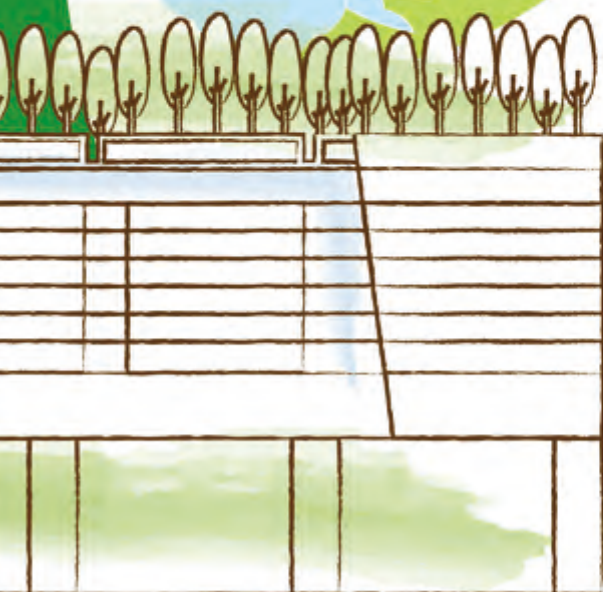
Banking & Real Estate Services	32.6%
Community Services	2.0%
Electronics & IT	0.1%
Fashion & Shoes	2.6%
Food & Beverages	38.8%
Gifts & Speciality, Hobbies, Toys, Jewellery	5.8%
Homeware & Home Furnishing	0.6%
Leisure & Entertainment, Sports & Fitness	1.2%
Services & Education	11.5%
Supermarkets	2.4%
Others	2.4%

Lease Expiry Profile²



Notes:

- Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.
- Based on gross rental for the month of December 2017. Gross rental includes rental income and licence income due from tenancies but excludes turnover rent.



KEY STATISTICS

(as at 31 December 2017)

Property	Occupancy	Purchase Price (HK\$ million)	Market Valuation (HK\$ million)	Gross Revenue ¹ (HK\$ million)	Net Property Income (HK\$ million)
 <p>6 LAGUNA PLAZA</p>	96.4% (2016: 97.0%)	1,919	2,450	127.3 (2016: 129.4)	91.2
 <p>7 BELVEDERE SQUARE</p>	99.6% (2016: 100%)	1,250	2,370	141.2 (2016: 135.0)	101.1
 <p>8 WALDORF AVENUE</p>	100% (2016: 100%)	400	1,651	90.3 (2016: 87.9)	71.3
 <p>9 CARIBBEAN SQUARE</p>	100% (2016: 98.3%)	428	1,080	63.7 (2016: 61.2)	48.0
 <p>10 PROVIDENT SQUARE²</p>	98.1% (2016: 84.6%)	650	1,061	59.9 (2016: 47.3)	37.0
 <p>11 JUBILEE SQUARE</p>	97.8% (2016: 96.9%)	218	892	52.0 (2016: 51.9)	33.6

KEY STATISTICS

Property	Occupancy	Purchase Price (HK\$ million)	Market Valuation (HK\$ million)	Gross Revenue ¹ (HK\$ million)	Net Property Income (HK\$ million)
 <p>12 SMARTLAND</p>	97.5% (2016: 96.1%)	258	723	46.9 (2016: 47.6)	27.3
 <p>13 TSING YI SQUARE</p>	100% (2016: 99%)	230	656	39.4 (2016: 37.8)	27.5
 <p>14 CENTRE DE LAGUNA</p>	98.9% (2016: 100%)	135	299	17.3 (2016: 17.0)	11.5
 <p>15 HAMPTON LOFT</p>	100% (2016: 66.4%)	159	283	11.2 (2016: 14.2)	5.8
 <p>16 LIDO AVENUE</p>	100% (2016: 100%)	75	190	10.1 (2016: 9.8)	8.4
 <p>17 RHINE AVENUE</p>	100% (2016: 100%)	40	120	7.2 (2016: 6.8)	5.1

Notes:

1. Includes base rental, charge-out collections, licence fees, turnover rent, car park revenues and other revenues.

2. The disposal of Provident Square is expected to be completed on 28 February 2018. The purchaser of Provident Square was Farsight Investment Limited. Valuation as at 30 November 2017 and 31 December 2017 were HK\$1,061 million and conducted by methodologies of income capitalisation and direct comparison.



Sharing
HARVEST
with the community

Fortune REIT is committed to give back to the community and help build a harmonious society. Besides a year-round volunteering programme, we also partner with non-profit organizations to host events at Fortune Malls for worthy causes.



ESG REVIEW

Sustainability has long been an integral part of Fortune REIT's strategy to drive growth, manage risks and create value.



ESG REVIEW

ENVIRONMENT

Fortune REIT recognises its responsibility to conduct business in a way that protects and improves the environment for future generation. The environmental policy has been established for managing Fortune REIT's various environmental impacts identified in the mall operation. It demonstrates our commitment to protect the environment by reducing energy consumption and effective waste management. We endeavor to explore various possibilities of introducing more environmentally-friendly features in Fortune Malls.

RELATIONSHIPS WITH KEY STAKEHOLDERS

- **Employees**

We value our staff as our greatest asset and strive to maintain a healthy, safe, equal and fulfilling working environment for our employees. As an employer believing in life-long learning, we encourage our staff to proactively identify their training needs and seek development opportunities to fulfil their personal and career aspirations.

- **Tenants**

We strive to protect the interests of tenants and visitors to ensure they are satisfied with our management services. To ensure quality services, Fortune REIT conducts management service surveys and tenants visits at different malls every year. Our proactive approach fosters cooperation and continuous service improvement at our malls.

- **Community**

Our belief in sharing love and care to the community manifests in our continued efforts in organising activities with charity organisations and local NGOs, it builds a strong bonding between Fortune REIT and the community.



1. Recycling rainwater with the Rainwater Harvesting System at Fortune City One.
- 2,3,4. We have collaborated with different organisations to identify and cater to community needs with a variety of caring events hosted in our malls, such as Chinese tea gathering, water fun park and movie day.



ACHIEVEMENTS AND AWARDS

Fortune REIT and the Manager are dedicated to upholding the highest standards of corporate governance and maintaining transparent and effective communication with our stakeholders. Over the years, we have been infusing sustainability concepts into management and operations and actively implementing a range of environmental protection policies among Fortune Malls. In 2017, we have earned an impressive number of awards in different categories which were widely recognized by the industry as a benchmark of excellence.



Achievements and Awards

CORPORATE GOVERNANCE**Asia Pacific Best of the Breeds REITs Awards 2017***- The Pinnacle Group International -*

- Platinum Award – Hong Kong Retail Category

Asia's Best Companies Poll 2017*- FinanceAsia -*

- Best Managed Company
- Best at Investor Relations
- Best CEO – Ms. Justina Chiu
- Most Committed to Corporate Governance
- Best at Corporate Social Responsibility

The Listed Enterprise Excellence Awards 2017 –**Corporate Governance Award***- CAPITAL WEEKLY Magazine -***The Edge Singapore Billion Dollar Club Corporate Awards –****“Best Performing Stock”***- The Edge Singapore -***Outstanding Listed Company Award 2017***- The Hong Kong Institute of Financial Analysts and Professional Commentators Limited -***CORPORATE COMMUNICATION****2017 International ARC Awards**

- Gold Award for Cover Photo/Design: Real Estate Management
- Bronze Award for Printing and Production: REIT: Retail/Shopping Centers
- Bronze Award for Printing and Production: Real Estate Management

2016 Vision Awards*- League of American Communications Professionals LLC -*

- Platinum Award – Real Estate/REIT Category
- Top 100 Annual Reports Worldwide
- Top 80 Annual Reports in the Asia-Pacific Region
- Top 40 Chinese Annual Reports
- Best Report Narrative in the Asia-Pacific Region – Gold

HKIRA 3rd Investor Relations Awards*- Hong Kong Investor Relations Association -*

- Best IR Company (Mid Cap)
- Best Investor Meeting (Mid Cap)
- Best IR Presentation Collaterals (Mid Cap)

CORPORATE SOCIAL RESPONSIBILITY**CarbonCare® ESG Label***- CarbonCare InnoLab -***U Green Awards 2016/17 – Excellence of Environmental Contributions***- U Magazine -***5 Years Plus Caring Company Logo***- Hong Kong Council of Social Service -***Hong Kong Smoke-free Leading Company Awards 2016 – Triple Gold Award***- Hong Kong Council of Smoking and Health -*



Constantly
REINVESTING
for growth

With the disposal of Provident Square for HK\$2 billion, at three times of its purchase price, we have captured yet another great opportunity to unlock enormous value for our Unitholders. The proceeds from the disposal ideally places Fortune REIT in a good position to pursue further growth.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board is responsible for corporate governance and the overall management of the Manager, including establishing goals for management and monitoring the achievement of these goals.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Chui Sing Loi
(alias Tsui Sing Loi)



Chiu Kwok Hung, Justin



Lim Hwee Chiang



Yeung, Eirene



Ma Lai Chee, Gerald



Chiu Yu, Justina



Cheng Ai Phing



Yeo Annie
(alias Yeo May Ann)



Koh Poh Wah

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Chui Sing Loi (alias Tsui Sing Loi)

Chairman and Independent Non-Executive Director

Mr. Chui, aged 69, has been appointed as an Independent Non-Executive Director, the Chairman of the Board and a member of the Audit Committee of the Manager from 1 January 2017. Before joining the Manager, Mr. Chui was an engineer and a civil servant involved in the development of Singapore Changi Airport from the start to its opening in 1981. He headed the Mechanical and Electrical Branch of Changi Airport Development Division of the Public Works Department and took part in the setting up of Indeco Engineers Pte. Ltd. ("IEPL"), a government-owned company for the management of the new airport's engineering facilities. He was subsequently released from the civil service to take up the position of Deputy General Manager of IEPL, and later its General Manager. Within a few years, IEPL had expanded to include facilities management of Singapore's largest two hospitals; and the supply and installation of building services systems to Singapore's mass rapid transit stations and to China World Trade Centre in Beijing.

Mr. Chui was a Project Manager to head its multi-disciplinary project management team of Suntec City Development Pte. Ltd. from June 1992 to December 1997 which directly managed the development of Suntec City, the largest commercial development in Singapore at that time.

Mr. Chui was involved in project and facilities management in the development projects such as Thomson 800, Costa Del Sol, Cairnhill Crest, One Raffles Quay and Marina Bay Financial Centre. One Raffles Quay and Marina Bay Financial Centre are mega developments comprising prime offices, retail spaces, and luxurious apartments in Singapore's new business district.

Mr. Chui has extensive professional experience in property development, investment and facility management. He was awarded the Public Service Medal (Bronze) for his efforts in the development of Singapore Changi Airport.

Mr. Chui holds a Bachelor degree of Science (Engineering) from The University of Hong Kong.

Chiu Kwok Hung, Justin

Non-Executive Director

Dr. Chiu, aged 67, has been the Chairman and a Director of the Manager since the Manager's incorporation in 2003. He stepped down as the Chairman of the Manager on 1 January 2017 and remains as a Non-Executive Director of the Manager. Dr. Chiu is also the Chairman of ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT, listed on the Main Board of the SEHK). Dr. Chiu is a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. He was previously the Chairman and Non-Executive Director of ARA (whose shares were withdrawn from listing on 19 April 2017), the holding company of the Manager. Dr. Chiu was a member of the Standing Committee of the 12th Shanghai Committee of the Chinese People's Political Consultative Conference of the People's Republic of China, and is a Council Member and a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators, a member of the Board of Governors of Hong Kong Baptist University Foundation and an Honorary Associate Member of Business of Trent University, Canada. Dr. Chiu is also a Senior Visiting Fellow of the Department of Land Economy at the University of Cambridge and an Honorary Professor of School of Pharmaceutical Sciences of Sun Yat-sen University.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. Dr. Chiu joined the CK Group in 1997, and is an Executive Director and a Member of the Executive Committee of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited) ("**CK Asset**"), a company listed on the Main Board of the SEHK, heading the real estate sales, marketing and property management teams. Prior to joining the CK Group, Dr. Chiu was with Sino Land Company Limited from 1994 to 1997 and Hang Lung Development Company, Limited (now known as Hang Lung Group Limited) from 1979 to 1994 where he was responsible for the leasing and property management in both companies. Both Sino Land Company Limited and Hang Lung Group Limited are listed on the Main Board of the SEHK.

Dr. Chiu holds Bachelor of Arts degree in Sociology and Economics from Trent University, Canada, and was conferred with the degree of Doctor of Social Sciences, *honoris causa* by Hong Kong Baptist University and the degree of Doctor of Laws, *honoris causa* by Trent University, Canada. Dr. Chiu is the father of Ms. Chiu Yu, Justina, a Director of the Manager.

Lim Hwee Chiang

Non-Executive Director

Mr. John Lim, aged 61, has been a Director of the Manager since the Manager's incorporation in 2003. He is also the Group Chief Executive Officer and Director of ARA, the holding company of the Manager (which was delisted from the Singapore Stock Exchange on 19 April 2017). He has been a Director of ARA since its establishment. He is also a non-executive director of ARA Trust Management (Suntec) Limited, ARA Asset Management (Prosperity) Limited, ARA-CWT Trust Management (Cache) Limited and Hui Xian Asset Management Limited. Mr. Lim is also the chairman of APM Property Management Pte. Ltd., Suntec Singapore International convention & Exhibition Services Pte. Ltd. and the management council of The Management Corporation Strata Title Plan No. 2197 (Suntec City). In addition, Mr. Lim is an independent director and the chairman of the remuneration committee of Singapore-listed Teckwah Industrial Corporation Limited, the chairman of the property management committee of the Singapore Chinese Chamber of Commerce & Industry, the managing director of Chinese Chamber Realty Private Limited and a director of the Financial Board of the Singapore Chinese Chamber of Commerce. He is also chairman of the Asia Pacific Real Estate Association and the Consultative Committee to the Department of Real Estate, National University of Singapore.

Mr. Lim has more than 30 years of experience in the real estate industry, and has received many notable corporate awards. These include the PERE Global Awards 2016 Industry Figure of the Year: Asia, Ernst & Young Entrepreneur Of the Year Singapore 2012, Ernst & Young Entrepreneur Of the Year – Financial Services 2012 and the Outstanding CEO of the Year 2011 at the Singapore Business Awards 2012. Mr. Lim, along with the Board of Directors of ARA, is also a recipient of the prestigious Best Managed Board (Gold) Award at the Singapore Corporate Awards 2012. In 2017, he was conferred the Public Service Medal (PBM) by the President of Singapore in recognition of his contributions to the community.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lim holds a Bachelor of Engineering (First Class Honours) in Mechanical Engineering, a Master of Science in Industrial Engineering, as well as a Diploma in Business Administration, each from the National University of Singapore.

Yeung, Eirene

Non-Executive Director

Ms. Yeung, aged 57, has been a Director of the Manager since 2003. She is a member of the Disclosures Committee of the Manager. Ms. Yeung is also a Member of the Executive Committee, the Company Secretary and General Manager of Company Secretarial Department of CK Asset. She is also the Company Secretary and the Alternate Director to the Group Managing Director of CK Infrastructure Holdings Limited (formerly known as "Cheung Kong Infrastructure Holdings Limited") ("**CK Infrastructure**") and the Company Secretary of CK Life Sciences Int'l., (Holdings) Inc. ("**CK Life Sciences**"). Ms. Yeung joined the CK Group in 1994. She advises the Board on corporate strategy, and currently heads the corporate legal and secretarial team that oversees listing, regulatory and origination compliance, and advises and drives mergers and acquisitions, property investments and acquisitions, securities placement and investments, private equity investment, fund investment, bond and note issue and other financing exercises, as well as derivative and swap transactions and investment in structured products. CK Asset, CK Infrastructure and CK Life Sciences are listed on the Main Board of the SEHK.

She has been a solicitor of the High Court of the Hong Kong Special Administrative Region ("**HKSAR**") from 1986 and a non-practising solicitor of the Senior Courts of England and Wales from 1990.

Ms. Yeung is a member of the Financial Reporting Council, a member of the SFC (HKEC Listing) Committee of the Securities and Futures Commission of Hong Kong, a member of the Listing Committee of the Main Board and Growth Enterprise Market of the SEHK, a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption and Vice Chairman of the General Committee of The Chamber of Hong Kong Listed Companies.

Ms. Yeung is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a Master of Science degree in Finance, a Master's degree in Business Administration from The Chinese University of Hong Kong, and a Bachelor's degree in Laws from The University of Hong Kong.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ma Lai Chee, Gerald**Non-Executive Director**

Mr. Ma, aged 49, has been appointed a Director and a member of the Designated Committee of the Manager since June 2015 and was an Alternate Director to a Director of the Manager, Mr. Ip Tak Chuen, Edmond, from April 2008 to May 2015. Mr. Ma joined the CK Group in 1996 and is currently a Member of Executive Committee and General Manager, Corporate Business Development Department of CK Asset. He also serves as a Non-Executive Director and a member of the Designated (Finance) Committee of ARA Asset Management (Prosperity) Limited (the manager of Prosperity REIT). Mr. Ma is an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-Executive Director of Hutchison Telecommunications Hong Kong Holdings Limited (“**HTHKH**”). CK Asset, Prosperity REIT and HTHKH are listed on the Main Board of the SEHK.

Mr. Ma is also a director of aircraft leasing companies, Accipiter Holdings Designated Activity Company, Accipiter Investments Holdings Designated Activity Company and Vermillion Aviation Holdings Limited, members of CK Asset.

Mr. Ma has over 27 years of experience in finance, investment and portfolio management, real estate development and marketing and managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong. He is also a member of the President’s Circle, the Dean’s Advisory Board for the Faculty of Arts and the Faculty Advisory Board of the UBC Sauder School of Business of the University of British Columbia, Canada. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

Chiu Yu, Justina**Chief Executive Officer and Executive Director**

Ms. Chiu, aged 37, has been appointed the Chief Executive Officer of the Manager since February 2015 and an Executive Director of the Manager since 2010. She was employed by the Manager from 2008.

She is also a Responsible Officer and the Chairman of each of the Disclosures Committee and the Designated Committee of the Manager. She is responsible for the overall performance and direction of Fortune REIT.

Prior to her current appointments, she was the Deputy Chief Executive Officer of the Manager responsible for day-to-day management of Fortune REIT from 2010 to 1 February 2015 and the Chief Operating Officer of the Manager overseeing strategic planning, investment, asset management and investor relations from 2009 to 2010.

Ms. Chiu holds a Master of Science degree in Real Estate Economics and Finance, a Bachelor of Science degree in Accounting and Finance, a Postgraduate Certificate in Laws and a Postgraduate Diploma in Law. She is also a solicitor of the High Court of the HKSAR, a CFA Charterholder, a member of the American Institute of Certified Public Accountants and a member of the Royal Institute of Chartered Surveyors. Ms. Chiu is the daughter of Dr. Chiu Kwok Hung, Justin, a Non-Executive Director of the Manager.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Cheng Ai Phing

Independent Non-Executive Director

Ms. Cheng, aged 60, has been appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee, a member of the Disclosures Committee and Designated Committee of the Manager from 1 January 2017. She is also an Executive Director and a member of GIG Consulting Pte. Ltd. which provides consulting services and a Non-Executive Partner of Aric Partners LLP which is an accounting firm providing taxation, accounting, corporate and consulting services.

Ms. Cheng was a Senior Partner in Assurance at a Big Four International Accounting Firm for 36 years before her retirement in 2015. During her career with the Firm, she was the Firm's Practice Country Leader for Global Financial Services, Real Estates, Public Sector and Banking and Complex Financial Instruments and served large listed and non-listed domestic and international clients in those industries. Ms. Cheng was also the Chairman of the Firm's Governance Committee for several years up to her retirement.

Ms. Cheng is a Fellow Chartered Accountant of The Institute of Singapore Chartered Accountants ("ISCA"), a Fellow Certified Public Accountant of CPA Australia and a Fellow Chartered Certified Accountant of The Association of Chartered Certified Accountants, United Kingdom.

Ms. Cheng currently sits on various governmental bodies and professional associations in Singapore. She is a member of the Accounting Standards Council of Singapore, a member of the Board of Trustees of the Education and Training Fund of the National Trade Union Congress, a member of the Technical Advisory Panel of Accounting and Corporate Regulatory Authority and a member of the Disciplinary Committee of Singapore Exchange.

From 2012, Ms. Cheng has been appointed as a member of the Financial Reporting Committee of ISCA and became a member of its Investigation and Disciplinary Panel in 2016.

Ms. Cheng holds a Bachelor of Accountancy degree from the University of Singapore.

Yeo Annie (alias Yeo May Ann)

Independent Non-Executive Director

Ms. Yeo, aged 71, has been appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Manager from 1 February 2017.

Ms. Yeo was previously engaged as a consultant from 2009 to 2011 for Joonghak PFV in respect of its mixed office/commercial property development in Seoul, Korea, and the director and chief executive officer of Property Enterprises Development Pte. Ltd. and its associated companies from 1995 to 2005. Ms. Yeo was also a director of Hunwin Enterprises (S) Pte. Ltd., a supplier of hotel amenities in Asia, from 1983 to 2015.

Ms. Yeo currently holds various positions with governmental and religious bodies in Singapore. She is the treasurer of the Women Executive Committee of the People's Association, Cairnhill Community Club and a member of the Finance Ministry of the Covenant Community Methodist Church.

Ms. Yeo has extensive professional experience in property development and investment management.

Ms. Yeo holds a Bachelor degree of Economics (Honours) from the National University of Singapore and had completed the Advanced Management Programme at the Harvard Graduate School of Business.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Koh Poh Wah

Independent Non-Executive Director

Ms. Koh, aged 61, has been appointed as Independent Non-Executive Director of the Manager from 1 August 2017. She has more than 30 years of working experience in the areas of operations management, technology, financial and business re-engineering areas. Ms. Koh was previously the Regional Accountant (Alpha Asia Pacific) of Alpha International, a non-profit organization, from 2012 to 2015, where she took full responsibility for the finance functions for Alpha Asia Pacific region, Alpha Singapore and AAP Publishing Pte. Ltd. Prior to Alpha International, she was a director with Future Positive Pte. Ltd. and Minds@Work Ventures working extensively on Information Technology/Business Re-engineering consultancy areas. Ms. Koh also spent 15 years in AIA Co. Ltd. from 1986 to 2000, with her last position as Vice President – Quality Support & Operations Management. Prior to this role, Ms. Koh held various executive positions in Singapore Bus Service Co. Ltd., Singapore Computer Systems Co. Ltd. and Malvern & Co. Chartered Accountants (UK).

Ms. Koh holds a Master of Science in Management Science and Operational Research, a Bachelor of Arts Degree (Honours) in Accounting and a Diploma from Institute for the Management of Information Systems (previously known as Institute of Data Processing Management, UK). Ms. Koh is also a Fellow of Life Management Institute and an Associate of Customer Service for the Life Management Organization, USA.

SENIOR MANAGEMENT

Chiu Yu, Justina

Chief Executive Officer

Ms. Chiu is the Chief Executive Officer of the Manager. Biographical information of Ms. Chiu is set out in the previous section of Board of Directors, of which she is a member. Ms. Chiu is responsible for working with the Board to determine the strategy for Fortune REIT. She is also responsible for the business of the Manager in Hong Kong and Singapore including the day-to-day operations of Fortune REIT, investment proposals, strategic planning and marketing.

Hung Yuen Chun

Director, Investments and Investor Relations

Ms. Hung joined the Manager in 2006. She is the Director, Investments and Investor Relations and a Responsible Officer of the Manager. Ms. Hung is responsible for communicating and liaising with Unitholders and investors of Fortune REIT.

Ms. Hung is also responsible for identifying and evaluating potential acquisitions or divestments which are consistent with the Manager's investment strategy.

Ms. Hung has more than 15 years of experience in the real estate industry with exposure to the Hong Kong and PRC markets. Prior to joining the Manager, Ms. Hung worked for the CK Group for six years. Ms. Hung holds a Bachelor of Science degree in Surveying (First Class Honours) from the University of Hong Kong. She is a qualified General Practice Surveyor and an associate member of the Hong Kong Institute of Surveyors.

CORPORATE GOVERNANCE POLICIES

Guided by the 'REIT' spirit of RESPECT, EXCELLENCE, INTEGRITY AND TRANSPARENCY, the Board resolves to continue adhering to the highest standards of corporate governance, business ethics, and corporate social responsibility, thus ensuring solid leadership is in place for creating long-term returns for its stakeholders.

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 ("**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 (the "**Applicable Rules**"), 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 (the "**Hong Kong Listing Rules**") (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 Singapore Code which are applicable to Fortune REIT and/or the Manager throughout the Reporting Year and

has provided explanations in cases of deviations (if any) in this report. In addition, Fortune REIT and/or the Manager have adhered to the relevant laws and regulations that have a significant Impact, including Employment Ordinance, Personal Data (Privacy) Ordinance, Minimum Wage Ordinance, Occupational Health and Safety Ordinance, and Competition Ordinance and there was no incidence of non-compliance of the relevant laws and regulations that have a significant impact on Fortune REIT during the Reporting Year. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the Manager and/or Fortune REIT.

During the Reporting Year, the Compliance Manual had been amended to update the terms of reference of the Audit Committee pursuant to the latest requirements in Singapore.

AUTHORISATION STRUCTURE

Fortune REIT is a collective investment scheme authorised by:

- (i) the Monetary Authority of Singapore ("**MAS**") under Section 286 of the Securities and Futures Act (Cap. 289) (the "**SFA**") and regulated by the provisions of the Code on Collective Investment Schemes (the "**CIS Code**") issued pursuant to Sections 284 and 321 of the SFA; and

CORPORATE GOVERNANCE POLICIES

- (ii) the Securities and Futures Commission of Hong Kong ("**SFC**") under Section 104 of the Securities and Futures Ordinance (Cap. 571) (the "**SFO**") and regulated by the provisions of the Code on Real Estate Investment Trusts (the "**REIT Code**").

The Manager is licensed by the SFC to conduct the regulated activity of asset management (Type 9) under Part V of the SFO. Ms. Chiu Yu, Justina, Ms. Hung Yuen Chun and Ms. Ng Yuk Ting are the Responsible Officers of the Manager of which Ms. Chiu Yu, Justina is also an Executive Director of the Manager pursuant to the requirements of Section 125 of the SFO and Chapter 5.4 of the REIT Code.

The Manager is also licensed by MAS to conduct the regulated activity of REIT management under the SFA. Ms. Chiu Yu, Justina, Ms. Hung Yuen Chun, Ms. Ng Wei Li Fiona (Huang Weili Fiona) and Ms. Lim Wei Yen are the appointed representatives of the Manager pursuant to the Securities and Futures (Licensing and Conduct of Business) Regulations (Reg. 10).

The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code. The Trustee is also qualified to act as a trustee for collective investment schemes authorised under the SFA.

ROLES OF THE TRUSTEE AND THE MANAGER

The Trustee and the Manager are independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of Fortune REIT on behalf of the Unitholders. The Manager's role under the Trust Deed is to manage Fortune REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of the assets of Fortune REIT are professionally managed in the sole interest of the Unitholders. The Manager gives recommendations to the Trustee on acquisitions, divestments and enhancement of the assets of Fortune REIT in accordance with the stated investment strategy of Fortune REIT.



CORPORATE GOVERNANCE POLICIES

BOARD OF DIRECTORS OF THE MANAGER

The Board is responsible for corporate governance and the overall management of the Manager including establishing goals for management and monitoring the achievement of these goals. All Board members participate in matters relating to corporate governance, business operations and risks, financial performance and the nomination and review of the performance of the directors of the Manager (the “**Directors**”). The Board has established a framework for the management of Fortune REIT and the Manager, including a system of internal controls and business risk management processes.

The Board meets to review the Manager’s key activities. Board meetings are held once every quarter (or more often if necessary) to discuss and review the strategies and policies of Fortune REIT, including any significant acquisitions and disposals, annual budget, financial performance of Fortune REIT and to approve the release of the financial results. The Board also reviews the risks to Fortune REIT’s assets, and acts upon any comments from the auditors of Fortune REIT (the “**Auditors**”). Ad-hoc Board meetings will be held, as and when necessary, to address significant transactions or issues that may arise in between scheduled meetings. In lieu of physical meetings, written resolutions may also be circulated for approval by the Board.

The Board also reviews major financial decisions and the performance of the Manager. Subject to the matters specifically reserved for the Board as set out in the Compliance Manual such as to approve any significant acquisitions and disposals, the annual budget and the release of financial results, the Board delegates day-to-day management and certain supervisory functions to the relevant management teams and the committees of the Board.

The Board presently comprises nine members, eight of whom are Non-Executive Directors. Four of the Non-Executive Directors are Independent

Non-Executive Directors (“**INEDs**”). The composition of the Board is determined on the following principles:

- the Chairman of the Board (the “**Chairman**”) shall be a Non-Executive Director;
- the Board shall comprise Directors with a broad range of commercial experience including expertise in fund management and the experience in property industry; and
- at least one-third of the Board should comprise INEDs, with a minimum of three INEDs.

The Board comprises persons who as a group provide core competencies, such as business and management experience, finance, legal and fund management experience necessary and critical to meet the Manager’s objectives. This also enables management to benefit from the external and expert perspectives of the Directors who collectively possess the core competencies relevant to the direction and growth of Fortune REIT and its subsidiaries (the “**Group**”). The Board is responsible for the review of its structure, size and composition as well as new appointment of directors from time to time to ensure that the Board has the appropriate mix of expertise and experience in order to achieve a balance of skills, experience and diversity of perspectives.

In reviewing the Board composition, the Board will from time to time consider the benefits of all aspects of diversity including but not limited to gender, age, cultural, educational background and professional experience, in order to maintain an appropriate range and balance of skills, experience and background of the Board. The Board is of the view that its current Board size of nine members is appropriate, taking into account the nature and scope of operations of the Group.

The Non-Executive Directors contribute to the Board process by monitoring and reviewing management’s performance against goals and objectives of Fortune REIT and/or the Manager. Their views and opinions provide alternate perspectives to Fortune REIT’s

CORPORATE GOVERNANCE POLICIES

business. When challenging management's proposals or decisions they bring independent judgement to bear on business activities and transactions involving conflicts of interest and complexities.

The independence of Directors is reviewed at the time of their appointment and thereafter the Board also reviews the independence of INEDs annually based on the independence criteria set out in the Compliance Manual (the "**Independence Criteria**") and the Applicable Rules.

The Board has received written annual confirmations from Mr. Chui Sing Loi (alias Tsui Sing Loi), Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah confirming his/her independence pursuant to the Independence Criteria for the year ended 31 December 2017. The Board has determined that all present INEDs (who are Mr. Chui Sing Loi (alias Tsui Sing Loi), Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah) are independent in character and judgement and that there are no relationships or circumstances which are likely to affect or could appear to affect their judgement and no individual or small group of individuals dominates the Board's decision-making process. The Board will continue to assess the composition of the Board to meet the independence requirements as per the applicable regulatory requirements and remains committed to a progressive renewal of its Board membership, where necessary.

Under the proposed amendments to the Securities and Futures (Licensing and Conduct of Business) Regulations ("**SFLCBR**"), a Director is considered to be independent if he/she is (a) independent from management and business relationships with the Manager and Fortune REIT and (b) independent from the substantial shareholder of the Manager and substantial Unitholder of Fortune REIT using the criteria set out in the proposed amendments to SFLCBR and the Directors have not served on the Board for a period of 9 years or longer. The Board has reviewed the independence of each Director according to SFLCBR and received confirmation from each Independent Director that they have no relationships

with Fortune REIT, the Trustee, or the Manager (or its related corporations, its 5% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of their independent judgement).

The Board considered Mr. Chui Sing Loi (alias Tsui Sing Loi), Ms. Cheng Ai Phing, Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah are independent from management and business relationships with the Manager and Fortune REIT and independent from the substantial shareholder of the Manager and substantial Unitholder of Fortune REIT. All INEDs have not served on the Board for 9 years or more.

Although the Directors have other listed company board representations and principal commitments, the Board has determined, during an assessment of the Board's performance, that each of the individual Directors has devoted sufficient time and attention to their role as Directors and to the business of the Manager and Fortune REIT. The Board is of the view that such appointments do not hinder the Directors from carrying out their duties as Directors of the Manager and therefore believes that it would not be necessary to prescribe a maximum number of listed company board representations and principal commitments that a Director may hold.

The positions of Chairman and Chief Executive Officer ("**CEO**") are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Mr. Chui Sing Loi (alias Tsui Sing Loi) who is an INED. The CEO is Ms. Chiu Yu, Justina, who is also an Executive Director and a Responsible Officer of the Manager. Ms. Chiu Yu, Justina is the daughter of Dr. Chiu Kwok Hung, Justin, a Non-Executive Director of the Manager.

The Chairman leads Board discussions and deliberations and is responsible for setting the meeting agenda of Board meetings. He ensures that Board meetings are held when necessary. He promotes high standards of corporate governance and maintains effective communication with the Unitholders. The CEO is responsible for the day-to-day

CORPORATE GOVERNANCE POLICIES

management of the Manager and Fortune REIT. She executes the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of Fortune REIT's business via management reports.

The Singapore Code recommends the appointment of an independent Director to be the Lead Independent Director where the Chairman is not an independent Director. The Manager presently does not have any Lead Independent Director, given that the Chairman is not a part of the management team and is an independent Director, the Chairman and the CEO are not the same person and are not immediate family members.

All Directors are provided with regular updates on changes in the relevant laws and regulations to enable them to make informed decisions in discharging their duties and responsibilities. Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant. The Manager provides Directors with information on the relevant external training courses, arranges and funds their training as and when required and their attendance records of external training will be kept and provided to the Manager where the Applicable Rules apply. Structured induction/orientation/training opportunities are provided to the Directors through initiatives such as site visits, briefings at Board meetings and training workshops organised for Directors. In FY2017, all Directors have participated in continuous professional development programmes.

The Board is of the view that there are sufficient safeguards and checks to ensure that the decision-making process of the Board is independent and based on the collective decision of Directors.

The Manager has not established its own nominating committee because this function is performed by the Board. The Board performs the functions of the nominating committee, including reviewing the

structure, size, composition, performance and renewal of the Board and reviewing the independence of Board members.

In considering persons for appointment or re-appointment as Directors, the Board will consider a number of factors to assess whether such persons are fit and proper to be Directors, including those set out in the Compliance Manual, such as (a) educational or other qualifications or experience having regard to the nature of the functions to be performed; (b) ability to carry out their duties competently, honestly and fairly; and (c) reputation, character, reliability and integrity in accordance with the Fit and Proper Criteria.

The Manager believes that contributions from each Director go beyond his/her attendances at Board and Board committee meetings.

Management provides the Board with timely and adequate information on Board matters and issues requiring the Board's deliberation. Management also provides monthly updates to the Board on Fortune REIT's performance. All Directors are also provided with ongoing reports relating to the operational and financial performance of Fortune REIT to enable them to exercise effective oversight over Fortune REIT's operational and financial performance.

Board meetings for each year are scheduled in advance to facilitate Directors' individual administrative arrangements in respect of their ongoing commitments. Board papers are generally circulated at least three days in advance of each meeting and include background explanatory information to enable Directors to make informed decisions. Such explanatory information may also be in the form of briefings to Directors or formal presentations by senior management staff in attendance at Board meetings, or by external professionals.

The Board has separate and independent access to the Company Secretary and to senior management staff at all times. The Company Secretary, or her authorised designate(s), will attend all meetings of the

CORPORATE GOVERNANCE POLICIES

Board and Board committees and prepares minutes of Board proceedings. She assists the Chairman to ensure that Board procedures are followed and are regularly reviewed to ensure the effective functioning of the Board and compliance with relevant rules and regulations. The Company Secretary also assists the Chairman and the Board to implement and strengthen corporate governance practices and processes with a view to enhancing long-term Unitholders' value.

Where Directors require independent professional advice in the course of their duties, such advice will be provided at the Manager's expense.

Subsequent to the publication of the Interim Report 2017 of Fortune REIT, the Manager received notifications regarding the following changes of Directors' information:

- Mr. Lim Hwee Chiang was appointed as the chairman of the Asia Pacific Real Estate Association with effect from 2 October 2017.

During the Reporting Year, four board meetings of the Manager were held and the attendance record of the Board meetings is as follows:

Members of the Board		Attendance
Chairman and Independent Non-Executive Director	Mr. Chui Sing Loi (alias Tsui Sing Loi)	4/4
Non-Executive Directors	Dr. Chiu Kwok Hung, Justin	4/4
	Mr. Lim Hwee Chiang	4/4
	Ms. Yeung, Eirene	3/4
	Mr. Ma Lai Chee, Gerald	4/4
CEO and Executive Director	Ms. Chiu Yu, Justina	4/4
Independent Non-Executive Directors	Ms. Cheng Ai Phing	4/4
	Ms. Yeo Annie (alias Yeo May Ann) (appointed on 1 February 2017)	3/3
	Ms. Koh Poh Wah (appointed on 1 August 2017)	1/1
	Mr. Lim Lee Meng (resigned on 1 February 2017)	1/1

Apart from the regular Board meetings, the Chairman had convened one meeting with the Non-Executive Directors (including INEDs) without the presence of Executive Directors during the Reporting Year.

Following the proposed amendments to the SFLCBB relating to the independence of the Board, the Board is required to comprise at least (a) half independent directors; or (b) one-third independent directors if the Unitholders have right to vote on the appointment of director. As more than one-third but less than half of the Directors are independent, in order to comply with the proposed amendments to the SFLCBB, the Unitholders will be given the right to endorse the appointment of the relevant Directors at the forthcoming annual general meeting ("**AGM**") of the Unitholders.

AUDIT COMMITTEE

The Board has established an Audit Committee with clear terms of reference to assist it in discharging its responsibilities. The role of the Audit Committee is to, among other things, safeguard the assets of the Manager and Fortune REIT, assist the Board with discharging its responsibility in maintaining adequate accounting records, develop, maintain and review the effectiveness of the financial reporting systems, internal controls and risk management systems and the internal audit function, ensure integrity of financial statements and provide arrangements whereby concerns on financial improprieties or other matters raised by "whistleblowers" are investigated and appropriate follow up action taken.

CORPORATE GOVERNANCE POLICIES

The Audit Committee meets with the internal and external Auditors, without the presence of the management, at least once annually. Both the external Auditors and the internal Auditor have confirmed that for the Reporting Year, they had received full co-operation of the management and no restrictions had been placed on their scopes of audit.

The Audit Committee also, among other things, monitors the procedures established to regulate transactions with “connected person” (as defined in the REIT Code) and transactions with “interested party” (as defined in Appendix 6 – Investment: Property Funds of the CIS Code) and provides oversight over the property management services provided by the property manager.

The Audit Committee presently comprises three INEDs, namely Ms. Cheng Ai Phing, Mr. Chui Sing Loi (alias Tsui Sing Loi) and Ms. Yeo Annie (alias Yeo May Ann). Ms. Cheng Ai Phing is the Chairman of the Audit Committee. All members of the Audit Committee have years of experience in senior management positions. The Board is of the view that the Audit Committee members, having accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities.

During the Reporting Year, the Audit Committee had:

- (i) reviewed the risk management and internal control systems, and the effectiveness of the internal and external audit plans, including the nature and scope of work before commencement of these audits;

During the Reporting Year, three Audit Committee meetings were held and the attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Attendance
Ms. Cheng Ai Phing	3/3
Mr. Chui Sing Loi (alias Tsui Sing Loi)	3/3
Ms. Yeo Annie (alias Yeo May Ann) (appointed on 1 February 2017)	2/2
Mr. Lim Lee Meng (resigned on 1 February 2017)	1/1

- (ii) met with the Group’s internal and external Auditors on a half-yearly basis to discuss their findings as set out in their respective reports;
- (iii) reviewed and approved the consolidated statements of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and independent Auditors’ reports;
- (iv) reviewed the aggregate amount of fees paid to the external Auditors for the Reporting Year and the breakdown of the fees paid in total for audit and non-audit services respectively. It is satisfied that such non-audit services would not affect the independence of the external Auditors. The external Auditors have also affirmed their independence in this respect to the Audit Committee.

The Audit Committee, with the concurrence of the Board, has recommended the re-appointment of Deloitte & Touche LLP and Deloitte Touche Tohmatsu as external Auditors at the forthcoming AGM of the Unitholders; and

- (v) reviewed on a half-yearly basis, dealings by the Manager and Directors pursuant to the Code Governing Dealings in Units by Directors or the Manager (the “**Units Dealing Code**”) and the conduct and performance of the Directors or members of the governing bodies of the special purpose vehicles of Fortune REIT.

CORPORATE GOVERNANCE POLICIES

The Audit Committee met twice with the external Auditors for reviewing the half year and full year financial report and accounts of Fortune REIT during the Reporting Year.

Pursuant to the waiver from strict compliance with the requirement under Clause 9.13(b) of the REIT Code granted by the SFC, the Audit Committee confirms that the public relations-related expenses (the “**PR Expenses**”) are incurred in accordance with the internal control procedures of the Manager and the nature of the PR Expenses are incurred solely for the purposes as set out under Clause 4.3 of the Trust Deed.

During the Reporting Year, the Audit Committee was also kept apprised of changes to accounting standards and issues which have a direct impact on Fortune REIT’s financial statements via timely updates by the external Auditors at Audit Committee meetings.

The Audit Committee has put in place a whistle-blowing policy, which has been extended to persons other than staff of the Manager. Under this policy, the Audit Committee reviews arrangements by which staff of the Manager and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The policy provides a communication channel for all employees of the Manager, as well as any other persons, who may in confidence raise concerns about

possible improprieties and obstructive action within the Manager. The policy also protects complainants from reprisals or victimization when they whistle blow in good faith and without malice. The objective is to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

Details of the whistle-blowing policy and arrangements have been made available to all employees of the Manager. The description of the policy is also available on the Manager’s website to facilitate participation by other persons. There have been no whistle-blowing incidents reported during the Reporting Year.

DISCLOSURES COMMITTEE

The Board has also established a Disclosures Committee with clear terms of reference to assist it in reviewing matters relating to the disclosure of information to the Unitholders and public announcements.

The Disclosures Committee presently comprises three members, namely Ms. Yeung, Eirene, a Non-Executive Director, Ms. Chiu Yu, Justina, CEO and an Executive Director and Ms. Cheng Ai Phing, an INED. Ms. Chiu Yu, Justina is the Chairman of the Disclosures Committee.

During the Reporting Year, two Disclosures Committee meetings were held and the attendance record of the Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Attendance
Ms. Yeung, Eirene	2/2
Ms. Chiu Yu, Justina	2/2
Ms. Cheng Ai Phing	2/2

CORPORATE GOVERNANCE POLICIES

DESIGNATED COMMITTEE

The Board has also established a Designated Committee with clear terms of reference to assist it in reviewing matters relating to hedging strategies, financing and refinancing arrangements and transactions involving derivative instruments for hedging purposes.

The Designated Committee presently comprises three members, namely Mr. Ma Lai Chee, Gerald, a Non-Executive Director, Ms. Chiu Yu, Justina, CEO and an Executive Director and Ms. Cheng Ai Phing, an INED. Ms. Chiu Yu, Justina is the Chairman of the Designated Committee. One Designated Committee meeting was formally held in the Reporting Year to discuss on the hedging strategies and refinancing needs of Fortune REIT. All the members attended the meeting.

During the Reporting Year, one Designated Committee meeting was held and the attendance record of the Designated Committee meeting is as follows:

Members of the Designated Committee	Attendance
Ms. Chiu Yu, Justina	1/1
Mr. Ma Lai Chee, Gerald	1/1
Ms. Cheng Ai Phing	1/1

REMUNERATION MATTERS

The Manager has not established its own remuneration committee as it adopts the remuneration policies and practices of its holding company, ARA. Accordingly, the Manager has assessed ARA's remuneration policies and practices and deemed such remuneration policies and practices to be appropriate and adopted

its remuneration framework for the Directors and key management personnel of the Manager.

The remuneration framework follows a formal and transparent process in developing policy on all aspects of remuneration to align with the long term interest of the Unitholders, attract and retain talented staff for growth and commensurate with the staff responsibilities and achievements.

During the Reporting Year, the remuneration of Non-Executive Directors is as follows:

Name of Non-Executive Director	Salary (%)	Bonus (%)	Directors'			Total (%)
			Fee ⁽¹⁾ (%)	Others (%)		
Below S\$250,000						
Dr. Chiu Kwok Hung, Justin ⁽²⁾	–	–	–	–	–	–
Mr. Lim Hwee Chiang ⁽³⁾	–	–	–	–	–	–
Ms. Yeung, Eirene ⁽²⁾	–	–	–	–	–	–
Mr. Ma Lai Chee, Gerald ⁽²⁾	–	–	–	–	–	–
Mr. Chui Sing Loi (alias Tsui Sing Loi)	–	–	100	–	–	100
Ms. Cheng Ai Phing	–	–	100	–	–	100
Ms. Yeo Annie (alias Yeo May Ann) ⁽⁴⁾	–	–	100	–	–	100
Ms. Koh Poh Wah ⁽⁴⁾	–	–	100	–	–	100

⁽¹⁾ The annual directors' fee for INEDs is a fixed sum of S\$60,000 and is paid in cash only. The Executive Directors do not receive directors' fees.

⁽²⁾ Dr. Chiu Kwok Hung, Justin, Ms. Yeung, Eirene and Mr. Ma Lai Chee, Gerald are full time employees of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited) which is deemed to be a significant holder of Fortune REIT and had offered to waive their directors' fee for FY2017.

⁽³⁾ Mr. Lim Hwee Chiang is a full time employee of ARA Asset Management Limited, the holding company of the Manager and had offered to waive his director's fee for FY2017.

⁽⁴⁾ Ms. Yeo Annie (alias Yeo May Ann) and Ms. Koh Poh Wah were appointed as INEDs with effect from 1 February 2017 and 1 August 2017, respectively.

CORPORATE GOVERNANCE POLICIES

Under the remuneration policy and practice adopted by the Manager, a comprehensive and structured performance assessment is carried out annually for the CEO and executives of the Manager. At the start of the year, key performance indicators for the CEO and executives are discussed and agreed upon to ensure that such indicators are specific, measurable, result-oriented and time bound. Such key performance indicators reflect organisational goals and are linked to Fortune REIT's and the individual's performance.

A mid-year review is carried out to monitor the performance and relevance of these indicators and a year-end review is carried out to measure actual performance against the key performance indicators. Based on these reviews, the variable year-end bonus for the CEO and executives is determined.

The Executive Directors (including CEO) and the top five executives are entitled to a monthly salary and a variable year-end bonus, both in cash, based on performance review. In addition, the CEO and designated executives of the Manager (the "**Participants**") participate in a pool of incentive payments based on certain performance indicators for the transactions with the independent third parties under the ARA group's performance based bonus scheme (the "**Scheme**") as approved by the remuneration committee of the ARA group. The payments under the Scheme take into account the Participants' seniority, length of service and their performance and contributions to Fortune REIT. ARA group or Fortune REIT currently does not have any share option scheme or share plan.

Given the confidentiality and sensitivity of remuneration matters, the Board believes that disclosing the remuneration of the Executive Director and the top five executives on a named basis (whether in exact quantum or in bands of S\$250,000) is prejudicial to the best interests of Fortune REIT and its Unitholders. The current management team has been serving the Manager and Fortune REIT for a considerable period of time and it is a stable team. It is important for the Manager to retain talent for the

long-term interests of Fortune REIT and its Unitholders and ensure stability and continuity of business operations with a competent and experienced management team in place. In view of the competitive conditions in the real estate and fund management industries, such disclosure of remuneration of the management team may potentially result in staff movement. Therefore, the Board believes that not disclosing their remuneration will be in the best interests of Fortune REIT and the Unitholders' interests will not be prejudiced as a result of such non-disclosure. Currently, save as disclosed, there are no employees of the Manager who are immediate family members of a Director or the CEO and whose remuneration exceeds S\$50,000 during FY2017.

INTERNAL CONTROLS

The Manager acknowledges its responsibility for the risk management and internal control systems and such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Manager has put in place a system of internal controls and the relevant procedures and processes to safeguard Fortune REIT's assets, the Unitholders' interests as well as to manage risks. The Board, through the Audit Committee, reviews the adequacy and effectiveness of the Manager's and Fortune REIT's internal controls including financial, operational, compliance and information technology controls and risk management policies and systems. The Audit Committee also reviews the adequacy of resources, qualifications and working experience of the Manager's staff carrying out Fortune REIT's accounting, compliance and financial reporting functions, their training programmes and budget.

The Manager has engaged BDO Financial Services Limited, an independent third party, which is a member firm of BDO International, to conduct internal audit reviews of Fortune REIT's operations. The functions of the internal Auditor include reviewing and making recommendations to the Board or the Audit



CORPORATE GOVERNANCE POLICIES

Committee (as the case may be) to ensure effective segregation of duties and operational functions of the Manager and the effectiveness and accuracy for reporting irregularities and infringements of the Manager's operational and compliance procedures. The internal Auditor reports directly to the Audit Committee on audit findings and to the management on administrative matters.

The Audit Committee reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the internal Auditor has adequate resources to perform its functions and is independent of the activities that it performs audit. The internal Auditor has carried out its functions according to the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

RISK ASSESSMENT AND MANAGEMENT OF BUSINESS RISK

Effective risk management is a fundamental part of Fortune REIT's business strategy. Recognising and managing risk is central to the business and to protecting the Unitholders' interests and value. Fortune REIT operates within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed to understand the risks involved. Responsibility for managing risks lies with the business functions concerned, working within the overall strategy and risk tolerance established by the Board, in conjunction with the Audit Committee.

The Audit Committee and the Board meet half-yearly, or more often if necessary to review the financial performance of Fortune REIT. The Board also reviews the risks to the assets and operations of Fortune REIT, and acts upon any comments from the internal and external Auditors. In assessing business risk, the Board with the concurrence of the Audit Committee,

considers the economic environment and the property industry risk. The management meets regularly to review the operations of Fortune REIT and discuss continuous disclosure issues.

Key risks, control measures and management actions are continually identified, reviewed and monitored by the management as part of Fortune REIT's enterprise-wide risk management framework. The internal Auditor assists and guides the management in the formulation of risk policies and processes to effectively identify, evaluate and manage significant risks.

The Manager has established a risk identification and management process. In Fortune REIT, risks are proactively identified and addressed. The risk profiles are reported to the Audit Committee and the Board on a half-yearly basis to highlight changes in the risk assessment, quantitative and qualitative factors affecting the inherent risks and effectiveness of mitigatory controls supporting the residual risks. The ownership of these risks lies with the respective business functions with stewardship residing with the Board.

Action plans to manage the risks are continually being monitored and refined by the management and the Board. The internal Auditor conducts audits to review the risk management framework and processes and assess the effectiveness of the internal controls system in Fortune REIT, including key financial, operational and compliance controls. Any material non-compliance or lapses in internal controls together with corrective measures are reported to the Audit Committee. Additionally, in performing its audit of the financial statements, the external Auditors perform tests over operating effectiveness of certain controls that they intend to rely on which are relevant to Fortune REIT's preparation of its financial statements. The external Auditors report any significant deficiencies in such internal controls to the Audit Committee.

CORPORATE GOVERNANCE POLICIES

Based on the framework established and the reviews conducted by the internal and external Auditors, the Board opines, with the concurrence of the Audit Committee, that there are adequate and effective internal controls and risk management systems in place within the Group in addressing key financial, operational, compliance and information technology controls risks in its current business environment.

The Board has received assurance from the CEO and Assistant Finance Director of the Manager that the financial records have been properly maintained and that the financial statements give a true and fair view of the Fortune REIT's operations and finances. The Board has also received assurance from the CEO and Assistant Finance Director of the Manager regarding the effectiveness of the risk management and internal control systems of the Manager.

CONFLICTS OF INTEREST

The Manager has instituted the following procedures to deal with potential conflict of interest issues which the Manager may encounter in managing Fortune REIT:

- (a) The Manager is a dedicated manager to Fortune REIT and does not manage any other real estate investment trust which invests in the same type of properties as Fortune REIT or is involved in any other property business.
- (b) The entry into any connected party transaction of Fortune REIT must be reviewed and/or approved by the Audit Committee by a majority vote.
- (c) Newly appointed Director is made aware of the concept of connected party transactions and is required to make the required disclosure(s) of interest to the Manager, when a conflict or potential conflict occurs.
- (d) At least one-third of the Board shall comprise INEDs.

Under the Trust Deed, the Manager and its associates are prohibited from voting at or being part of a quorum for any meeting of the Unitholders convened to approve any matter in which the Manager or any of its associates has a material interest in the business to be conducted.

It is also provided in the Trust Deed that as and to the extent required by the REIT Code or any conditions of waivers and exemptions from the operation of the REIT Code granted by the SFC from time to time, the Trustee shall take actions or commence proceedings on behalf of Fortune REIT as necessary, including action against the Manager or other connected persons or (upon request in writing by the Manager) action against any other person including against the Trustee Connected Persons (as defined in the section headed "Connected Party Transactions with the Trustee Connected Persons" below) in relation to any transactions or agreements entered into by the Trustee for and on behalf of Fortune REIT with such persons. However, the Trustee shall have discretion to refrain from taking actions or commencing proceedings after consultation with the Manager if it considers in its absolute discretion that such action is not in the best interests of the Unitholders.

Under the Trust Deed, any Unitholder shall be prohibited from voting its own Units at, or being counted in the quorum for, a meeting at which it has a material interest in the business to be conducted and that interest is different from the interests of other Unitholders (as determined by the Manager, where the Unitholder concerned is not a connected person related to the Manager, or the Trustee, where the Unitholder concerned is not a connected person related to the Trustee, if appropriate, in its absolute opinion) including an issue of new Units where a Unitholder may increase its holdings of Units by more than its pro rata share.



CORPORATE GOVERNANCE POLICIES

INTERESTS OF, AND DEALINGS IN UNITS BY DIRECTORS, THE MANAGER OR THE SIGNIFICANT UNITHOLDERS

The Manager has adopted the Units Dealing Code governing dealings in the securities of Fortune REIT by Directors, the Manager and senior executives, officers or other employees of the Manager (collectively, the “**Management Persons**”) on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules. Pursuant to the Units Dealing Code, Management Persons wishing to deal in any securities of Fortune REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Fortune REIT. In addition, Management Persons must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of himself, itself or others. Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which constitute notifiable transactions under Chapter 14 of the Hong Kong Listing Rules or any connected party transactions under the REIT Code or any inside information must refrain from dealing in the securities of Fortune REIT as soon as they become aware of or privy to them until proper disclosure of the information in accordance with the Applicable Rules is made. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not privy that there may be inside information and that they must not deal in the securities of Fortune REIT for a similar period. Similarly, where the Manager is in possession of any inside information, it must refrain from dealing in the securities of Fortune REIT as soon as it becomes privy to such information until proper disclosure of the information in accordance with

the Applicable Rules is made. Pursuant to the Units Dealing Code, the Management Persons must not deal in any securities of Fortune REIT on any day on which Fortune REIT’s financial results are published and:

- (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results;
- (b) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results;
- (c) at any time whilst in possession of price-sensitive information; and
- (d) for short-term considerations,

unless the circumstances are exceptional, for example, the exceptional circumstances as described in the Compliance Manual. In any event, the Management Persons must comply with the procedures set out in the Units Dealing Code.

Specific enquiry has been made with the Management Persons, who confirmed that they have complied with the required standard set out in the Units Dealing Code during the Reporting Year.

There are procedures in place for monitoring the disclosure of interests by Directors, the chief executive of the Manager (the “**Chief Executive**”) and the Manager. The relevant provisions of the SFO shall be deemed to apply to the Manager, the Directors, the Chief Executive and each Unitholder and all persons claiming through or under him.

CORPORATE GOVERNANCE POLICIES

Under the Trust Deed, the Unitholders with a holding of 5% or more of the units in issue will have a notifiable interest and will be required to notify the SEHK, the Trustee and the Manager of their holdings in Fortune REIT. The Manager shall keep a register for these purposes and it shall record in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection by the Unitholders at the registered offices of the Trustee and the Manager (any time during business hours upon reasonable notice to the Manager).

COMMUNICATION BETWEEN FORTUNE REIT'S HONG KONG AND SINGAPORE OFFICES

As the management and operations of Fortune REIT are overseen and conducted by the Manager's management teams and staff located in Hong Kong and Singapore, the Manager will ensure that both offices work as a fully integrated team and communicate regularly and work closely together in meeting the investment objectives of Fortune REIT.

COMMUNICATION WITH UNITHOLDERS

The Applicable Rules require that a listed entity disclose to the market matters that would be likely to have a material effect on the price of the entity's securities. The Manager upholds a strong culture of continuous disclosure and transparent communication with the Unitholders and the investing community. The CEO together with the Director, Investments and Investor Relations, oversee this function. The Manager's disclosure policy requires timely and full disclosure of all material information relating to Fortune REIT by way of public releases or announcements through the SEHK and the SGX-ST and at the first instance and then including the said

releases or announcements on Fortune REIT's website at www.fortunereit.com.

The Manager also conducts regular briefings for analysts and media representatives, which will generally coincide with the release of Fortune REIT's results. During these briefings, the management will review Fortune REIT's most recent performance as well as discuss the business outlook for Fortune REIT.

GENERAL MEETINGS

Fortune REIT will hold an AGM each year in addition to any other general meetings in that year. The AGM would provide the Unitholders with a platform for dialogue with the Manager. The Manager ensures that Unitholders are able to participate effectively at the Unitholders meeting. The Directors and Chairmen of the respective Board committees and external Auditors would be in attendance at the AGM to answer questions from the Unitholders.

Under the Trust Deed, the Trustee or the Manager may (and the Manager shall at the request in writing of not less than 50 Unitholders or Unitholder(s) representing not less than 10% of the issued units of Fortune REIT) at any time convene a meeting of the Unitholders at such time and place as the party convening the meeting may think fit and propose resolutions for consideration at such meeting. Any such meeting shall be held in Hong Kong or Singapore (as may be determined by the Manager) with an alternate mode of engagement such as video conference.

For greater transparency and fairness in the voting process, voting at the general meetings are conducted by poll. This allows all Unitholders present or represented at the meetings to vote on a one-unit-one-vote basis. The voting results of all votes cast for or against each resolution are announced after the meeting.

CORPORATE GOVERNANCE POLICIES

An AGM was held during the Reporting Year and no extraordinary general meeting was held during such year. The attendance record of the Directors at the AGM is as follows:

Name of Directors		Attendance
Chairman and Independent Non-Executive Director	Mr. Chui Sing Loi (alias Tsui Sing Loi)	1/1
Non-Executive Directors	Dr. Chiu Kwok Hung, Justin	1/1
	Mr. Lim Hwee Chiang	1/1
	Ms. Yeung, Eirene	0/1
	Mr. Ma Lai Chee, Gerald	0/1
CEO and Executive Director	Ms. Chiu Yu, Justina	1/1
Independent Non-Executive Directors	Ms. Cheng Ai Phing	1/1
	Ms. Yeo Annie (alias Yeo May Ann) (appointed on 1 February 2017)	1/1
	Ms. Koh Poh Wah (appointed on 1 August 2017)	N.A.
	Mr. Lim Lee Meng (resigned on 1 February 2017)	N.A.

The external Auditors of Fortune REIT had attended the AGM to answer questions from the Unitholders.

REPORTING

Fortune REIT prepares its accounts in accordance with The International Financial Reporting Standards with a financial year end of 31 December and a financial half year of 30 June. In accordance with the Applicable Rules and the Trust Deed, the annual report and accounts for Fortune REIT will be published and sent to the Unitholders no later than three months following each financial year end and the interim report no later than two months following each financial half year.

It is the aim of the Board to provide the Unitholders with a balanced and comprehensive assessment of Fortune REIT's financial position and prospects. The management will provide the Board with complete and adequate information in a timely manner through regular updates on Fortune REIT's financial results as well as market trends and business development involving Fortune REIT.

MATTERS TO BE DECIDED BY UNITHOLDERS BY EXTRAORDINARY RESOLUTION

Under the Trust Deed, decisions with respect to certain matters require specific prior approval of the Unitholders by way of Extraordinary Resolution. Such matters include: (a) disposal of any land or an interest, option or right over any of the land forming part of the assets of Fortune REIT or shares in any property company holding such land, option or right over any of the land for Fortune REIT within two years of the acquisition of such land; (b) any increase in the rate above the permitted limit or change in structure of the Manager's management fees; (c) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (d) certain modifications to the Trust Deed; (e) termination of Fortune REIT (except in certain limited circumstances); (f) merger of Fortune REIT; (g) removal of the external Auditors and appointment of other auditors; (h) removal of the Trustee; and (i) a change in Fortune REIT's investment policy.

CORPORATE GOVERNANCE POLICIES

Any decisions to be made by resolution of the Unitholders other than the above shall be made by Ordinary Resolution, unless an Extraordinary Resolution is required by the Applicable Rules.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of a true and fair presentation of the financial statements for the year ended 31 December 2017. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Fortune REIT to continue as a going concern.

The statement of the external Auditors about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

COMPLIANCE WITH THE COMPLIANCE MANUAL

The Manager has in material terms complied with the provisions of the Compliance Manual and has adhered to all the applicable corporate governance practices throughout the Reporting Year.

REVIEW OF ANNUAL REPORT

The annual report of Fortune REIT for the year ended 31 December 2017 has been reviewed by the Audit Committee and the Disclosures Committee.

NEW UNITS ISSUED

As at 31 December 2017, the total number of issued units of Fortune REIT was 1,911,276,107. As compared with the position as at 31 December 2016, a total of 12,325,535 new units were issued during the Reporting Year in the following manner:

- On 3 January 2017, 3,177,375 new units were issued to the Manager at a price of HK\$8.6550

per unit (being ascribed in the Trust Deed) as payment in full for 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 a price of HK\$8.7320 per unit (being ascribed in the Trust Deed) as payment in full for 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.
- On 4 July 2017, 2,964,742 new units were issued to the Manager at a price of HK\$9.4605 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$28.0 million payable by Fortune REIT for the period from 1 April 2017 to 30 June 2017.
- On 4 October 2017, 3,102,526 new units were issued to the Manager at a price of HK\$9.1397 per unit (being ascribed in the Trust Deed) as payment in full for the Manager's base fee of approximately HK\$28.4 million payable by Fortune REIT for the period from 1 July 2017 to 30 September 2017.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 11,651,000 units by the Manager, there was no repurchase, sale or redemption of units of Fortune REIT by Fortune REIT or its subsidiaries.

PUBLIC FLOAT

Based on information that is publicly available to the Manager and within the knowledge of the Directors, more than 25% of the Units are held in the hands of the public as at 31 December 2017.

CONNECTED PARTY TRANSACTIONS

Set out below is the information in respect of the connected party transactions involving Fortune REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

CONNECTED PARTY TRANSACTIONS – INCOME

Save as disclosed under the section headed “Connected Party Transactions with the Trustee Connected Persons”, the following tables sets forth information on all connected party transactions from which Fortune REIT derived its income during the Reporting Year:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the year ended 31 December 2017 HK\$'000	Rental deposit received as at 31 December 2017 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Licensing transactions	844	240
A.S. Watson Retail (HK) Limited	Associated company of a significant holder ¹	Leasing and licensing transactions	36,009	2,472
BIGBOXX.com Limited	Associated company of a significant holder ¹	Leasing transactions	2,417	–
Cheung Kong Property Development Limited	Associate of a significant holder ¹	Licensing transactions	43,099	–
Citybase Property Management Limited	Associate of a significant holder ¹	Leasing transactions	2,311	599
Hutchison Telecommunications Services Limited	Associated company of a significant holder ¹	Leasing transactions	24	36
Hutchison Global Communications Limited	Associated company of a significant holder ¹	Leasing and licensing transactions	1,165	–
Hutchison International Limited	Associated company of a significant holder ¹	Leasing transactions	2,957	–
Hutchison Telephone Company Limited	Associated company of a significant holder ¹	Licensing transactions	9,382	1,531
PARKnSHOP (HK) Limited	Associated company of a significant holder ¹	Leasing and licensing transactions	152,415	3,013
Sino China Enterprises Limited	Associate of a significant holder ¹	Licensing transactions	17	5
Towerich Limited	Associate of a significant holder ¹	Licensing transactions	68	18
Total			250,708	7,914

Note:

1. Significant holder being Focus Eagle Investments Limited (“**Focus Eagle**”).

CONNECTED PARTY TRANSACTIONS

CONNECTED PARTY TRANSACTIONS – EXPENSES

The following table sets forth information in relation to property management arrangements, third party services and other operational transactions provided by the connected parties for the properties of Fortune REIT during the Reporting Year:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2017 HK\$'000
Citybase Property Management Ltd	Associate of a significant holder ¹	Property management and operations	1,017
E-Park Parking Management Limited	Associate of a significant holder ¹	Carpark lease agency fee	8,856
Goodwell-Fortune Property Services Limited	Associate of a significant holder ¹	Property and lease management fee and marketing service fee	81,858
Goodwell Property Management Limited	Associate of a significant holder ¹	Property management and operations	163
Metro Broadcast Corporation Limited	Associated company of a significant holder ¹	Advertising and promotion expenses	861
Whampoa Property Management Limited	Associated of a significant holder ¹	Property management and operations	836
Total			93,591

Note:

- The significant holder being Focus Eagle.

CONNECTED PARTY TRANSACTIONS

CONNECTED PARTY TRANSACTIONS – OTHERS

The following table sets forth information in relation to other services provided by the connected parties to Fortune REIT during the Reporting Year:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2017 HK\$'000
ARA Asset Management (Fortune) Limited	Manager	Manager's fee	157,731
HSBC Institutional Trust Services (Singapore) Limited	Trustee	Trustee's fee	13,000
Knight Frank Petty Limited	Principal valuer	Valuation fees	640
CK Asset	Associate of a significant holder ¹	Back office support service	19
Total			171,390

Note:

1. Significant holder being Focus Eagle.

CONNECTED PARTY TRANSACTIONS WITH THE TRUSTEE CONNECTED PERSONS

Leasing/licensing transactions

The following table sets forth information on the leasing/licensing transactions between Fortune REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies all within the meaning of the REIT Code) and the HSBC Group¹ (collectively, the "**Trustee Connected Persons**") during the Reporting Year:

Name of Connected Party	Relationship with Fortune REIT	Nature of the Connected Party Transaction	Income for the year ended 31 December 2017 HK\$'000	Rental deposit received as at 31 December 2017 HK\$'000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing and licensing transactions	19,334	5,138
The Hongkong and Shanghai Banking Corporation Limited (" HSBC ")	Trustee Connected Persons	Leasing and licensing transactions	9,856	2,132
Total			29,190	7,270

Note:

1. HSBC Group means HSBC and its subsidiaries and unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Fortune REIT). Specifically, HSBC Group includes Hang Seng Bank Limited and its subsidiaries.

CONNECTED PARTY TRANSACTIONS

PROVISION OF ORDINARY BANKING AND FINANCIAL SERVICES

Fortune REIT has engaged HSBC Group to provide ordinary course of banking and financial services (namely, bank deposits and interest earned therefrom and loan facilities including interest and charges paid thereto) within the Reporting Year.

CONFIRMATION BY THE INEDS

The INEDs confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the HSBC Group and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of Fortune REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Fortune REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

REPORT FROM AUDITOR OF FORTUNE REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Fortune REIT was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Review of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certificate Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party service and other operational transactions and transactions involving ordinary banking and financial services disclosed by the Group from pages 70 to 73 of this Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code. A copy of the auditor's letter will be provided by Fortune REIT to the SFC.

CONFIRMATION BY THE MANAGER AND TRUSTEE OF CORPORATE FINANCE TRANSACTION WITH HSBC GROUP

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Reporting Year.



DISCLOSURE OF INTERESTS

UNIT CAPITAL

The total number of issued units as at 31 December 2017 is 1,911,276,107 units.

HOLDINGS OF SIGNIFICANT UNITHOLDERS AND OTHER UNITHOLDERS

As at 31 December 2017, each of the following persons was considered a “significant Unitholder”, and hence a “connected person” of Fortune REIT, for the purpose of the REIT Code:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Focus Eagle ¹	413,074,684	21.61%	–	–
CK Asset	–	–	525,630,684	27.50%
Schroders Plc ²	–	–	227,613,698	11.91%

In addition to the significant Unitholders as disclosed above, each of the following persons held, or was deemed to hold 5% or more of the issued units as at 31 December 2017:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Ballston Profits Limited ¹	112,556,000	5.89%	–	–

Notes:

- Focus Eagle and Ballston Profits Limited were indirect wholly-owned subsidiaries of CK Asset (formerly known as Cheung Kong Property Holdings Limited). Therefore, CK Asset was deemed to hold 525,630,684 units, of which: (i) 413,074,684 units were held by Focus Eagle; and (ii) 112,556,000 units were held by Ballston Profits Limited.
- Schroders Plc was deemed to be interested in 227,613,698 units of which:
 - 71,493,400 units were held by Schroder Investment Management Limited;
 - 71,582,000 units were held by Schroder Investment Management (Singapore) Limited;
 - 83,345,000 units were held by Schroder Investment Management (Hong Kong) Limited;
 - 80,000 units were held by Schroders (C.I.) Limited; and
 - 1,113,298 units were held by Schroder & Co (Asia) Limited.

DISCLOSURE OF INTERESTS

INTERESTS OF THE MANAGER

As at 31 December 2017, the Manager held 3,488,811 units, or approximately 0.18% of the issued units of Fortune REIT.

INTERESTS OF THE DIRECTORS AND SENIOR EXECUTIVES

Details of the unitholding interests of the Directors and senior executives of Fortune REIT as at 31 December 2017 were as follows:

Name	Direct interest		Deemed interest	
	Number of Units Held Long Position	Percentage of Unit Holdings	Number of Units Held Long Position	Percentage of Unit Holdings
Directors				
Lim Hwee Chiang ¹	1,000,000	0.05%	2,100,000	0.11%

Note:

1. Mr. Lim Hwee Chiang was deemed to be interested in the 2,100,000 units held by Citibank Nominees Singapore Pte. Ltd. (as nominee for JL Philanthropy Ltd). Mr. Lim is the settlor of JL Charitable Settlement which is the beneficiary of JL Philanthropy Ltd.

HOLDINGS OF THE OTHER CONNECTED PERSONS

HSBC Group, being the Trustee Connected Persons of Fortune REIT, held 5,159,000 units, or approximately 0.27% of the issued units of Fortune REIT as at 31 December 2017.

Saved as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Fortune REIT holding any units of Fortune REIT as at 31 December 2017.

To the best knowledge of the Manager and save as disclosed, the following sets out changes in the beneficial interest of certain connected persons of Fortune REIT, in compliance with rule 8.2(a) of the REIT Code, by reference to comparison of their respective beneficial interests as at 31 December 2017 and 31 December 2016:

- (a) Schroders Plc was beneficially interested in 227,613,698 units as at 31 December 2017 and 190,386,831 units as at 31 December 2016;
- (b) The Manager was beneficially interested in 3,488,811 units as at 31 December 2017 and 2,814,276 units as at 31 December 2016;
- (c) HSBC Group was beneficially interested in 5,159,000 units as at 31 December 2017 and 26,402,188 units as at 31 December 2016; and
- (d) Mr. Richard Waichi Chan, a director of Focus Eagle and his associate were beneficially interested in 100,000 units as at 31 December 2017 and 31 December 2016.



VALUATION REPORT

Our Ref: GV/TL/CF/CT/ck/03-0446/10142(97)

HSBC Institutional Trust Services (Singapore) Limited
(in its capacity as trustee of Fortune Real Estate Investment Trust) (the “**Trustee**”)
21 Collyer Quay
#03-01, HSBC Building
Singapore 049320

c/o ARA Asset Management (Fortune) Limited
(in its capacity as manager of Fortune Real Estate Investment Trust) (the “**Manager**”)
Unit 5508-5510, 55/F
The Center
99 Queen’s Road Central
Central
Hong Kong

15 January 2018

VALUATION IN RESPECT OF 17 RETAIL PROPERTIES FOR “FORTUNE REIT”

Instructions

In accordance with your instructions for us to value the Properties owned by Fortune REIT, we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 31 December 2017 (referred to as the “**Valuation Date**”) for accounting purposes.

The Properties

- 1 Fortune City One**
Fortune City One, 1 Ngan Shing Street, Fortune City One Plus, 2 Ngan Shing Street, Fortune City One Market, 8 Lok Shing Street and Various Ground Floor Shops of Residential Towers, City One Shatin, Shatin, New Territories, Hong Kong
- 2 Fortune Kingswood**
Commercial Development as well as Other Retail, Kindergarten, Parking Lots and Ancillary Spaces to such Areas (including Loading Bays and External Walls), Reserve Shares and Common Areas (the “**Kingswood Ginza Mall**”, the “**Locwood Court Property**”, the “**Sherwood Court Property**”, the “**Chestwood Court Property**”, the “**Maywood Court Property**”, the “**Kenswood Court Property**”, and the “**Lynwood Court Property**”), within Kingswood Development, Tin Shu Wai, Yuen Long, New Territories, Hong Kong
- 3 Ma On Shan Plaza**
Ma On Shan Plaza, Bayshore Towers, 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong
- 4 Metro Town**
The Shopping Centre of Metro Town, 8 King Ling Road, Tseung Kwan O, New Territories, Hong Kong
- 5 Fortune Metropolis**
Fortune Metropolis, The Metropolis, 6-10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong
- 6 Laguna Plaza**
Commercial Development at Laguna Plaza, 88 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong
- 7 Belvedere Square**
Various Shops, the Clinics, the Kindergartens, a Market, Various Car Parking Spaces and Motor Cycle Parking Spaces, Common areas, Belvedere Garden Phase 1, 530-590 Castle Peak Road – Tsuen Wan; Belvedere Garden Phase 2, 620 Castle Peak Road – Tsuen Wan; Belvedere Garden Phase 3, 625 Castle Peak Road – Tsuen Wan, Tsuen Wan, New Territories, Hong Kong



VALUATION REPORT

8 **Waldorf Avenue**

Shops on Level 3 and Various Carparks, Waldorf Garden, 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong

9 **Caribbean Square**

Caribbean Square, Caribbean Coast, 1 Kin Tung Road, Tung Chung, Lantau Island, New Territories, Hong Kong

10 **Provident Square**

Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor (Excluding Carparking Spaces and Driveways and Appurtenant Areas, the Common Areas and Facilities thereof and therein) and Sub-Basement, Provident Centre, 21–53 Wharf Road, North Point, Hong Kong

11 **Jubilee Square**

Jubilee Square, Jubilee Garden, 2–18 Lok King Street, Shatin, New Territories, Hong Kong

12 **Smartland**

Various Portions in Smartland, East Asia Gardens, 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong

13 **Tsing Yi Square**

Various Portions in Tsing Yi Square, Tsing Yi Garden, 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong

14 **Centre de Laguna**

Centre de Laguna, 93 Cha Kwo Ling Road, Kindergarten on Ground Floor, 99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong

15 **Hampton Loft**

Hampton Loft, Hampton Place, 11 Hoi Fan Road, Tai Kok Tsui, Kowloon, Hong Kong

16 **Lido Avenue**

Shops on Ground Floor, Lido Garden, 41–63 Castle Peak Road – Sham Tseng, Tsuen Wan, New Territories, Hong Kong

17 **Rhine Avenue**

Shops on Ground Floor, Rhine Garden, 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong

(Collectively referred to as the “**Properties**”)

Basis of Valuation

Our valuation is our opinion of the market values of the Properties which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong and “The HKIS Valuation Standards 2017” published by The Hong Kong Institute of Surveyors (“**HKIS**”).

VALUATION REPORT

Valuation Methodologies

We have valued the Properties subject to their respective tenancies. In undertaking our valuation of the Properties, Income Capitalisation and Direct Comparison approaches are adopted. Income Capitalisation approach is considered to be the most appropriate method to assess market value of leased properties, particularly taking into consideration of the property's type of use and condition. Apart from Income Capitalisation approach, Direct Comparison approach is also adopted for cross referencing purposes.

Income Capitalisation

By this approach, the existing net rental income, i.e. rent exclusive of rates, government rents, management fees, air-conditioning charges and other tenants' outgoings, of all lettable units of a property are capitalised for its unexpired term of contractual tenancies. Upon reversion, i.e. at the expiry of the existing tenancy, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalised at market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government leases upon their expiries. Any vacant units are assumed to be let at their respective market rents at the Valuation Date.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The Capitalisation rate adopted is determined by reference to the yields achieved in analysed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and Capital appreciation, operating costs, risk factors and the like.

The market value of each of the Properties is the total of the capitalised value of the term income and the capitalised value of the reversion income, as appropriately deferred.

Direct Comparison

As a cross-reference, sales evidences of shopping arcade and carpark transaction records have been collected and analysed in terms of unit price per square foot and unit rate per space respectively. As there were limited shopping arcade transactions, where appropriate, we have also made reference to strata titled transactions.

Valuation Assumptions and Conditions

Our valuation is subject to the following assumptions and conditions.

Title Documents and Encumbrances

We have not been provided with any title documents of the Properties or extracts thereof but we have caused sample searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the Properties. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, premiums, restrictions, title defects and outgoings of an onerous nature which could affect their values.

Whilst we have taken reasonable care to investigate the titles of the Properties valued, we do not accept liability for any interpretation which we have placed on such information, which is more properly within the sphere of your legal advisers.

Source of Information

We have relied to a very considerable extent on information given by the Manager or his representatives and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupancies, lettings, incomes, expenditures, site and floor areas and all other relevant matters. We have not verified the information provided to us and have assumed that they are correct. We do not undertake to certify the authenticity of the information provided to us and we have no reason to doubt the truth and accuracy of this information which is material to the valuation. We were also advised by the Manager that no material facts have been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

Inspection and Measurement

We have inspected the exterior and where possible, the interior of the Properties. However, we have not carried out on-site measurement to verify the correctness of the site areas and/or floor areas of the Properties valued and have assumed that the site areas and floor areas shown on the documents handed to us are correct.

VALUATION REPORT

Tenancy and Rental Information

Our valuation is carried out subject to the existing tenancy arrangements and tenancy renewal agreements. In accordance with the tenancy schedule provided by the Manager, majority of the tenancies are exclusive of rates, Government rent, management fees, promotional levy and air-conditioning charges.

In accordance with the standard tenancy agreement, the landlord is responsible for structural repairs and the landlord's fixtures and fittings and to keep the conduits in tenanted repair whilst the tenants are responsible for internal repairs to the Properties.

We have not examined the lease documentation for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedule provided to us.

The estimated net property yield is based on the monthly net rental incomes, licence fees and miscellaneous incomes of the Properties as at the Valuation Date and the average monthly net income receivable from parking lots, turnover rents, etc during the period from January 2017 to December 2017, unless otherwise stated.

Structural Condition

We have not undertaken any structural survey or tested the services of the Properties. Our valuation has therefore been undertaken on the basis that the Properties were all in satisfactory repair and condition with services functioning satisfactorily and are free from rot, infestation or any other structural defect.

Summary of Values

We are of the opinion that the market values of the Properties subject to their respective tenancies as at the Valuation Date are as follows:

Property	Approximate Gross Area (sq.ft.)	No of Parking Lots	Market value in existing state as at 31 December 2017
1 Fortune City One	414,469	653	HK\$7,939,000,000
2 Fortune Kingswood	665,244	622	HK\$7,462,000,000
3 Ma On Shan Plaza	310,084	290	HK\$5,489,000,000
4 Metro Town	180,822	74	HK\$3,590,000,000
5 Fortune Metropolis	332,168	179	HK\$2,557,000,000
6 Laguna Plaza	163,203	150	HK\$2,450,000,000
7 Belvedere Square	276,862	329*	HK\$2,370,000,000

Contamination

We have not arranged for any investigation to be carried out to determine whether any deleterious or hazardous material has been used in the construction of the Properties and have therefore assumed in our valuation that none of the said material was contained in the Properties.

Compliance with Relevant Ordinances and Regulations

We have assumed that the Properties had been developed, constructed, occupied and used in full compliance with, and without contravention of any Ordinances, except only where otherwise stated. We further assume that, for any use of the Properties upon which this report is based, any and all required licences, permits, certificates, and authorization have been obtained, except only where otherwise stated.

Valuer's Interest

We hereby confirm that our valuers undertaking this valuation are authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Properties and are not a related corporation or nor do we have a relationship with the Manager, the Trustee or any other party or parties who Fortune REIT is contracting with.

VALUATION REPORT

Property	Approximate Gross Area (sq.ft.)	No of Parking Lots	Market value in existing state as at 31 December 2017
8 Waldorf Avenue	80,842	73	HK\$1,651,000,000
9 Caribbean Square	63,018	117	HK\$1,080,000,000
10 Provident Square	180,238	N.A.	HK\$1,061,000,000
11 Jubilee Square	170,616	97	HK\$892,000,000
12 Smartland	123,544	67	HK\$723,000,000
13 Tsing Yi Square	78,836	27	HK\$656,000,000
14 Centre de Laguna	43,000	N.A.	HK\$299,000,000
15 Hampton Loft	74,734	35	HK\$283,000,000
16 Lido Avenue	9,836	N.A.	HK\$190,000,000
17 Rhine Avenue	14,604	N.A.	HK\$120,000,000
Total	3,182,120	2,713*	HK\$38,812,000,000

* including 15 motor cycle parking spaces

Please refer to the attached valuation summary for property particulars of each of the Properties.

Limiting Conditions

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the Properties, as required under the REIT Code. No responsibility is accepted to any other party for the whole or any part of its contents.

This report and valuation have been prepared on the basis of information available as at 31 December 2017. Knight Frank Petty Limited accepts no responsibility for subsequent changes in information as to income, expenditures or market conditions.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Thomas Lam
FRICS FHKIS RPS(GP) RICS
Registered Valuer
Senior Director, Head of Valuation & Consultancy

Neither the whole or any part of the valuation report nor any reference thereto may be included in any published document, circular or statement nor published in any way whatsoever whether in hard copy or electronically (including on any web-site) without our prior written approval of the form and context in which it may appear.

Use by, or reliance upon this document by anyone other than the Manager and the Trustee are not authorized by Knight Frank Petty Limited, and Knight Frank Petty Limited together with the valuers are not liable for any loss arising from such unauthorized use or reliance. This document should not be reproduced without our prior written authority.

We enclose herewith our valuation summary and market overview.

Cyrus Fong
MRICS MHKIS RPS(GP) RICS
Registered Valuer
Director, Valuation & Consultancy

Notes:

Thomas Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region.

Cyrus Fong is a Chartered Surveyor who has solid experiences in property valuation and consultancy services in Hong Kong, Macau and China.

VALUATION REPORT

Fortune City One

Fortune City One, 1 Ngan Shing Street, Fortune City One Plus, 2 Ngan Shing Street, Fortune City One Market, 8 Lok Shing Street, Various Ground Floor Shops of Residential Towers, City One Shatin, Shatin, New Territories, Hong Kong.

Description	<p>City One Shatin is a comprehensive residential cum commercial development completed in phases between 1981 and 1989.</p> <p>The property mainly comprises various commercial areas within City One Shatin. Descriptions of the said commercial areas are set out below:</p> <ul style="list-style-type: none"> – the free standing commercial podium known as Fortune City One Plus (Commercial Block A) on the Ground Floor, 4th Floor and the Roof; – the free standing commercial podium known as Fortune City One (Commercial Block B) on the Ground Floor, 1st Floor and portion of the Roof, Roof Garden, Centre Garden and kiosks thereof; – the wet market and kindergarten below residential tower blocks 34–36 on Ground Floor; and – various single shops and non-domestic units dispersed throughout the development on the Ground Floor level of 12 individual tower blocks. <p>The total gross rentable area of the property is approximately 38,505.11 sq.m. (414,469 sq.ft.).</p> <p>The property also comprises 653 parking lots within the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Sections B, C, L and the Remaining Portion of Section A of Sha Tin Town Lot No. 1.</p> <p>Sha Tin Town Lot No. 1 is held under New Grant No. ST11064 for a term of 99 years commencing from 1 July 1898 which thereafter was statutorily extended to 30 June 2047. The Government rent payable for the property is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$25,232,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$221,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$1,039,000
Market Value in Existing State as at 31 December 2017	HK\$7,939,000,000 (Hong Kong Dollars Seven Billion Nine Hundred and Thirty Nine Million)
Estimated Net Property Yield	4.0%

VALUATION REPORT

Fortune Kingswood

Fortune Kingswood is commercial development (including Loading and Unloading Spaces), 604 Parking Spaces on Basement 1 and Basement 2 Floors and Common Areas and Common Service Facilities of Kingswood Ginza Phases 1 and 2, 12 and 18 Tin Yan Road, Tin Shui Wai, Yuen Long, New Territories (the “**Kingswood Ginza Mall**”)

Portion A on Ground Floor and External Wall of Portion A on Ground Floor of Commercial Development, Remaining Portion of External Wall of Commercial Development, Reserve Shares and Common Areas and Common Service Facilities of Locwood Court, Kingswood Villas, 1 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the “**Locwood Court Property**”)

Kindergarten Premises, 5 Kindergarten Car Parking Spaces (Nos. K1–K5), 2 Kindergarten Loading and Unloading Bays on Ground Floor and Common Areas and Common Service Facilities of Sherwood Court, Kingswood Villas, 3 Tin Wu Road, Tin Shui Wai, Yuen Long, New Territories (the “**Sherwood Court Property**”)

Kindergarten and Common Areas and Common Service Facilities of Chestwood Court, Kingswood Villas, 8 Tin Shui Road, Tin Shui Wai, Yuen Long, New Territories (the “**Chestwood Court Property**”)

Kindergarten A, Kindergarten B, Kindergarten Car Parking Spaces Nos. 1, 2, 3, 4, 5, 6, 7 and 8 at Basement and Common Areas and Common Service Facilities of Maywood Court, Kingswood Villas, 9 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the “**Maywood Court Property**”)

Kindergarten Premises, 5 Kindergarten Car Parking Spaces on Ground Floor, 2 Kindergarten Loading & Unloading Bays on Ground Floor and Common Areas and Facilities of Kenswood Court, Kingswood Villas, 2 Tin Lung Road, Tin Shui Wai, Yuen Long, New Territories (the “**Kenswood Court Property**”)

Common Areas and Common Services Facilities of Lynwood Court, Kingswood Villas, 3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories (the “**Lynwood Court Property**”)

(hereinafter collectively referred to as the “**Fortune Kingswood**”)

Description

Kingswood Villas is a large-scale private residential development comprising six phases with associated commercial, hotel, recreational and car parking facilities completed in 1990s.

Fortune Kingswood comprises a commercial development (including loading and unloading spaces) known as Kingswood Ginza, a retail shop and 5 kindergartens with ancillary parking spaces, loading and unloading bays, external walls and reserve shares within the development.

Details of the property are set out below:

The Kingswood Ginza Mall

Comprises the commercial development known as Kingswood Ginza which includes a shopping arcade on Ground, 1st and 2nd Floors, ancillary areas on 3rd and 5th Floors, 604 car parking spaces and certain loading and unloading spaces on Basement 1 and 2 Floors and Common Areas and Common Service Areas and Common Service Facilities. This property excludes all those common areas and the hotel development.

The Locwood Court Property

Comprises a retail shop known as Portion A on Ground Floor together with two portions of external walls of the commercial development and Common Areas and Common Service Facilities in Locwood Court of the development. This property also includes the reserve shares of Locwood Court.

VALUATION REPORT

The Sherwood Court Property

Comprises a kindergarten premises and 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor, and common areas and common service facilities in Sherwood Court of the development.

The Chestwood Court Property

Comprises a kindergarten and common areas and common service facilities in Chestwood Court of the development.

The Maywood Court Property

Comprises two kindergartens known as Kindergarten A and Kindergarten B and 8 kindergarten car parking spaces at Basement and common areas and common service facilities in Maywood Court of the development.

The Kenswood Court Property

Comprises a kindergarten premises and 5 kindergarten car parking spaces and 2 kindergarten loading and unloading bays on Ground Floor and common areas and facilities in Kenswood Court of the development.

The Lynwood Court Property

Comprises the common areas and common service facilities of Lynwood Court of the development.

The total gross rentable area of the property is approximately 61,802.68 sq.m. (665,244 sq.ft.).

Land Tenure

The property comprises portion of shares of and in the Remaining Portion of Tin Shui Wai Town Lot No. 1, the Remaining Portion of Tin Shui Wai Town Lot No. 2, the Remaining Portion of Tin Shui Wai Town Lot No. 3, Tin Shui Wai Town Lot No. 4, the Remaining Portion of Tin Shui Wai Town Lot No. 5, Tin Shui Wai Town Lot No. 6 and the Remaining Portion of Tin Shui Wai Town Lot No. 7.

Tin Shui Wai Town Lot Nos. 1, 2, 3, 4, 5, 6 and 7 are all held under New Grant No. YL3466 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.

Monthly Rental and Licence Income as at 31 December 2017

Approximately HK\$23,725,000 exclusive of rates, Government rent, management fees and utility charges.

Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017

Approximately HK\$524,000

Average Monthly Car Parking Income for January 2017 to December 2017

Approximately HK\$1,460,000

Market Value in Existing State as at 31 December 2017

HK\$7,462,000,000 (Hong Kong Dollars Seven Billion Four Hundred and Sixty Two Million)

Estimated Net Property Yield

4.1%

VALUATION REPORT

Ma On Sha Plaza

Ma On Shan Plaza, Bayshore Towers, 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong.

Description	<p>Ma On Shan Plaza is the commercial portion of a private residential cum commercial development known as Bayshore Towers completed in 1994.</p> <p>The property comprises the entire shopping centre on Levels 2 and 3 of a 5-storey podium (including a Basement, Ground Floor and Level 1) of the development.</p> <p>The total gross rentable area of the property is approximately 28,807.51 sq.m. (310,084 sq.ft.).</p> <p>The property also comprises 290 parking lots on the Basement Floor of the commercial podium.</p>
Land Tenure	<p>The property comprises portion of shares of and in Sha Tin Town Lot No. 382.</p> <p>Sha Tin Town Lot No. 382 is held under New Grant No. 12378 for a term commencing from 6 December 1991 to 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$20,599,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$158,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$724,000
Market Value in Existing State as at 31 December 2017	HK\$5,489,000,000 (Hong Kong Dollars Five Billion Four Hundred and Eighty Nine Million)
Estimated Net Property Yield	4.7%

VALUATION REPORT

Metro Town

The Shopping Centre of Metro Town, 8 King Ling Road, Tseung Kwan O, New Territories, Hong Kong.

Description	<p>Metro Town is a comprehensive private residential cum commercial development completed in two phases in 2006 and 2007.</p> <p>The property comprises the entire retail premises on the Ground Level, Level 1, Level 2, Level 3 and Level 5, and the covered footbridge of a 5-storey commercial podium of the development.</p> <p>The total gross rentable area of the property is approximately 16,798.77 sq.m. (180,822 sq.ft.).</p> <p>The property also comprises 74 parking lots on Level 2 of the commercial podium of the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Tseung Kwan O Town Lot No. 73.</p> <p>Tseung Kwan O Town Lot No. 73 is held under New Grant No. SK9700 for a term from 11 February 2003 to 10 February 2053. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$11,965,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent Income for January 2017 to December 2017	Approximately HK\$27,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$269,000
Market Value in Existing State as at 31 December 2017	HK\$3,590,000,000 (Hong Kong Dollars Three Billion Five Hundred and Ninety Million)
Estimated Net Property Yield	4.1%

VALUATION REPORT

Fortune Metropolis

Fortune Metropolis, The Metropolis, 6–10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong.

Description	<p>The Metropolis Mall is the commercial portion of a commercial/office/hotel/serviced apartment development known as The Metropolis completed in 2001.</p> <p>The property comprises the three levels of retail premises on the L7, L8 and L9 Floors of the multi-storey podium of the development.</p> <p>The total gross rentable area of the property is approximately 30,859.16 sq.m. (332,168 sq.ft.).</p> <p>The property also comprises 179 parking lots on L5 and L6 of the commercial podium of the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Kowloon Inland Lot No. 11077.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$8,207,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$117,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$548,000
Market Value in Existing State as at 31 December 2017	HK\$2,557,000,000 (Hong Kong Dollars Two Billion Five Hundred and Fifty Seven Million)
Estimated Net Property Yield	4.2%

VALUATION REPORT

Laguna Plaza

Commercial Development at Laguna Plaza, 88 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong.

Description	<p>Laguna Plaza is one of the commercial centres of a comprehensive private residential development known as Laguna City completed in 1991.</p> <p>The property comprises a 5-storey commercial/parking podium of the development.</p> <p>The total gross rentable area of the property is approximately 15,161.93 sq.m. (163,203 sq.ft.).</p> <p>The property also comprises 150 parking lots on Basement 1 and Basement 2 of the commercial podium.</p>
Land Tenure	<p>The property comprises portion of shares of and in New Kowloon Inland Lot No. 6055.</p> <p>New Kowloon Inland Lot No. 6055 is held under Conditions of Exchange No. UB12004 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$7,525,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$351,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$945,000
Market Value in Existing State as at 31 December 2017	HK\$2,450,000,000 (Hong Kong Dollars Two Billion Four Hundred and Fifty Million)
Estimated Net Property Yield	4.3%

VALUATION REPORT

Belvedere Square

Various Shops, the Clinics, the Kindergartens, a Market, Various Car Parking Spaces and Motor Cycle Parking Spaces, Common areas, Belvedere Garden Phase 1, 530–590 Castle Peak Road – Tsuen Wan; Belvedere Garden Phase 2, 620 Castle Peak Road – Tsuen Wan; Belvedere Garden Phase 3, 625 Castle Peak Road – Tsuen Wan, Tsuen Wan, New Territories, Hong Kong.

Description	<p>Belvedere Garden is a private residential cum commercial development comprising three phases with associated commercial, recreational and carparking facilities completed in phases between 1987 and 1991.</p> <p>The retail portion of property comprises various commercial areas within Belvedere Garden. Descriptions of the said commercial areas are set out below:</p> <p>Belvedere Garden Phase 1 Shops Nos. 1 to 7 on the Ground Floor, Clinics Nos. 1–4 and the kindergarten on the Mezzanine Floor of the commercial podium of Phase 1 of the development</p> <p>Belvedere Garden Phase 2 Shops Nos. 1–10 and 12 and the kindergarten on the Ground Floor; Shops on the 1st and 2nd Floors of the commercial podium of Phase 2 of the development.</p> <p>Belvedere Garden Phase 3 Shops on Basement 2, Shops and the Market on the Ground Floor and the kindergarten on the Podium Level of the commercial podium of Phase 3 of the development</p> <p>The total gross rentable area of the property is approximately 25,721.11 sq.m. (276,862 sq.ft.).</p> <p>The property also comprises a total of 329 parking lots on the Basement 2, Basement 1 and Ground Floors of the commercial podiums of the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Tsuen Wan Town Lot Nos. 308 and 316.</p> <p>Tsuen Wan Town Lot Nos. 308 and 316 are held under New Grant Nos. TW6583 and TW6639 respectively each for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$9,279,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$71,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$626,000
Market Value in Existing State as at 31 December 2017	HK\$2,370,000,000 (Hong Kong Dollars Two Billion Three Hundred and Seventy Million)
Estimated Net Property Yield	5.1%

VALUATION REPORT

Waldorf Avenue

Shops on Level 3 and Various Carparks, Waldorf Garden, 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong.

Description	<p>Waldorf Garden is a private residential cum commercial development completed in 1982.</p> <p>The property comprises a retail floor on the Level 3 of a 4-storey commercial/parking/recreational podium of the development.</p> <p>The total gross rentable area of the property is approximately 7,510.41 sq.m. (80,842 sq.ft.).</p> <p>The property also comprises 73 parking lots on Level 1 and Level 2 of the commercial podium.</p>
Land Tenure	<p>The property comprises portion of shares of and in Tuen Mun Town Lot No. 194.</p> <p>Tuen Mun Town Lot No. 194 is held under New Grant No. 2344 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$6,393,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent Income for January 2017 to December 2017	Approximately HK\$20,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$175,000
Market Value in Existing State as at 31 December 2017	HK\$1,651,000,000 (Hong Kong Dollars One Billion Six Hundred and Fifty One Million)
Estimated Net Property Yield	4.8%



VALUATION REPORT

Caribbean Square

Caribbean Square, Caribbean Coast, 1 Kin Tung Road, Tung Chung, Lantau Island, New Territories, Hong Kong.

Description

Caribbean Square is the commercial portion of a private residential cum commercial development known as Caribbean Coast completed between 2002 and 2008.

The property comprises the entire retail premises, a wet market and a kindergarten on the Ground Floor of a 3-storey commercial podium (including two basements) of the development.

The total gross rentable area of the property is approximately 5,854.52 sq.m. (63,018 sq.ft.).

The property also comprises 117 parking lots on the 1st Floor of the commercial podium of the development.

Land Tenure

The property comprises portion of shares of and in Tung Chung Town Lot No. 5.

Tung Chung Town Lot No. 5 is held under New Grant No. IS8102 for a term from 26 June 1997 to 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.

Monthly Rental and Licence Income as at 31 December 2017

Approximately HK\$4,940,000 exclusive of rates and Government rent, management fees and utility charges.

Average Monthly Turnover Rent Income for January 2017 to December 2017

Approximately HK\$64,000

Average Monthly Car Parking Income for January 2017 to December 2017

Approximately HK\$224,000

Market Value in Existing State as at 31 December 2017

HK\$1,080,000,000 (Hong Kong Dollars One Billion and Eighty Million)

Estimated Net Property Yield

5.8%

VALUATION REPORT

Provident Square

Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor (Excluding Carparking Spaces and Driveways and Appurtenant Areas, the Common Areas and Facilities thereof and therein) and Sub-Basement, Provident Centre, 21–53 Wharf Road, North Point, Hong Kong.

Description	<p>Provident Centre is a private residential development with associated commercial/recreational/carparking facilities completed in between 1982 and 1984.</p> <p>The property comprises the entire retail premises of the development located on the Portion of Basement, Portion of Ground Floor and Portion of Upper Ground Floor and the Sub-basement of the 4-storey commercial/recreational/carparking podium of the development.</p> <p>The total gross rentable area of the property is approximately 16,744.52 sq.m. (180,238 sq.ft.).</p>
Land Tenure	<p>The property comprises portion of shares of and in Inland Lot No. 8465.</p> <p>Inland Lot No. 8465 is held under a Government Lease for a term of 75 years commencing from 5 September 1921 renewable for a further term of 75 years. The Government rent payable for the lot is HK\$11,430,828 per annum.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$3,797,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$98,000
Market Value in Existing State as at 31 December 2017	HK\$1,061,000,000 (Hong Kong Dollars One Billion and Sixty One Million)
Estimated Net Property Yield	4.4%

VALUATION REPORT

Jubilee Square

Jubilee Square, Jubilee Garden, 2–18 Lok King Street, Shatin, New Territories, Hong Kong.

Description	<p>Jubilee Square is the commercial centre of a private residential cum commercial development known as Jubilee Garden completed in 1986.</p> <p>The property mainly comprises a free-standing 7-storey shopping centre and a wet market on the 1st Floor of the podium of Jubilee Garden.</p> <p>The total gross rentable area of the property is approximately 15,850.61 sq.m. (170,616 sq.ft.).</p> <p>The property also comprises 97 parking lots within the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Sha Tin Town Lot No. 87.</p> <p>Sha Tin Town Lot No. 87 is held under New Grant No. ST11326 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$2,943,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent and Atrium Income for January 2017 to December 2017	Approximately HK\$15,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$390,000
Market Value in Existing State as at 31 December 2017	HK\$892,000,000 (Hong Kong Dollars Eight Hundred and Ninety Two Million)
Estimated Net Property Yield	4.5%

VALUATION REPORT

Smartland

Various Portions in Smartland, East Asia Gardens, 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong.

Description	<p>Smartland is the commercial portion of a private residential cum commercial development known as East Asia Gardens completed in 1981.</p> <p>The property comprises various retail portions on the Ground and 1st Floors, the whole of 2nd Floor, the reserved podium roof on the 3rd Floor, portions of external walls (except the portion at A101 on Ground Floor) of a 4-storey podium (including the Basement), of the development.</p> <p>The total gross rentable area of the property is approximately 11,477.52 sq.m. (123,544 sq.ft.).</p> <p>The property also comprises 67 parking lots on the Basement of the commercial podium of the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Tsuen Wan Town Lot No. 247.</p> <p>Tsuen Wan Town Lot No. 247 is held under New Grant No. TW5591 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$2,761,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Turnover Rent Income for January 2017 to December 2017	Approximately HK\$20,000
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$205,000
Market Value in Existing State as at 31 December 2017	HK\$723,000,000 (Hong Kong Dollars Seven Hundred and Twenty Three Million)
Estimated Net Property Yield	5.0%



VALUATION REPORT

Tsing Yi Square

Various Portions in Tsing Yi Square, Tsing Yi Garden, 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong.

Description	<p>Tsing Yi Square is the commercial portion of a private residential cum commercial development known as Tsing Yi Garden completed in 1986.</p> <p>The property comprises various retail shops on the Ground and 1st Floors in the shopping centre of the development.</p> <p>The total gross rentable area of the property is approximately 7,324.04 sq.m. (78,836 sq.ft.).</p> <p>The property also comprises 27 parking lots within the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Tsing Yi Town Lot No. 101.</p> <p>Tsing Yi Town Lot No. 101 is held under New Grant No. TW6229 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental Income as at 31 December 2017	Approximately HK\$2,669,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$45,000
Market Value in Existing State as at 31 December 2017	HK\$656,000,000 (Hong Kong Dollars Six Hundred and Fifty Six Million)
Estimated Net Property Yield	5.0%

VALUATION REPORT

Centre de Laguna

Centre de Laguna, 93 Cha Kwo Ling Road, Kindergarten on Ground Floor, 99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong.

Description	<p>Centre de Laguna is one of the commercial centres of a comprehensive private residential cum commercial development known as Laguna City completed in 1992.</p> <p>The property comprises the commercial area on the Ground Floor and Upper Ground Floor of the commercial centre of Blocks 32 to 38 of the development and the kindergarten on Ground Floor at Blocks 32 to 38 of the development.</p> <p>The total gross rentable area of the property is approximately 3,994.80 sq.m. (43,000 sq.ft.).</p>
Land Tenure	<p>The property comprises portion of shares of and in New Kowloon Inland Lot No. 6100.</p> <p>Kowloon Inland Lot No. 6100 is held under Conditions of Exchange No. 12071 for a term from 31 October 1989 to 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$1,173,000 exclusive of rates and Government rent, management fees and utility charges.
Market Value in Existing State as at 31 December 2017	HK\$299,000,000 (Hong Kong Dollars Two Hundred and Ninety Nine Million)
Estimated Net Property Yield	4.7%



VALUATION REPORT

Hampton Loft

Hampton Loft, Hampton Place, 11 Hoi Fan Road, Tai Kok Tsui, Kowloon, Hong Kong.

Description	<p>Hampton Loft is the commercial portion of a private residential cum commercial development known as Hampton Place completed in 2003.</p> <p>The property comprises the entire retail premises on the 5th and 6th Floors of the commercial podium of the development.</p> <p>The total gross rentable area of the property is approximately 6,942.96 sq.m. (74,734 sq.ft.).</p> <p>The property also comprises 35 parking lots on the 1st Floor of the commercial podium of the development.</p>
Land Tenure	<p>The property comprises portion of shares of and in Kowloon Inland Lot No. 11107.</p> <p>Kowloon Inland Lot No. 11107 is held under Conditions of Sale No. 12554 for a term from 13 December 1999 to 12 December 2049. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental and Licence Income as at 31 December 2017	Approximately HK\$1,075,000 exclusive of rates and Government rent, management fees and utility charges.
Average Monthly Car Parking Income for January 2017 to December 2017	Approximately HK\$89,000
Market Value in Existing State as at 31 December 2017	HK\$283,000,000 (Hong Kong Dollars Two Hundred and Eighty Three Million)
Estimated Net Property Yield	4.9%

VALUATION REPORT

Lido Avenue

Shops on Ground Floor, Lido Garden, 41–63 Castle Peak Road – Sham Tseng, Tsuen Wan, New Territories, Hong Kong.

Description	<p>Lido Garden is a private residential cum commercial development completed in 1989.</p> <p>The property comprises various shops units on the Ground Floor of the development.</p> <p>The total gross rentable area of the property is approximately 913.79 sq.m. (9,836 sq.ft.).</p>
Land Tenure	<p>The property comprises portion of shares of and in Tsuen Wan Marine Lot No. 4.</p> <p>Tsuen Wan Marine Lot No. 4 is held under Conditions of Sale No. 2309 for a term which expired on 27 June 1997 and was extended upon expiry until 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental Income as at 31 December 2017	Approximately HK\$824,000 exclusive of rates and Government rent, management fees and utility charges.
Market Value in Existing State as at 31 December 2017	HK\$190,000,000 (Hong Kong Dollars One Hundred and Ninety Million)
Estimated Net Property Yield	5.2%

Rhine Avenue

Shops on Ground Floor, Rhine Garden, 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong

Description	<p>Rhine Garden is a private residential cum commercial development completed in 1992.</p> <p>The property comprises various shops units on the Ground Floor and AHU Room on Podium Level 1 of the development.</p> <p>The total gross rentable area of the property is approximately 1,356.74 sq.m. (14,604 sq.ft.).</p>
Land Tenure	<p>The property comprises portion of shares of and in Lot No. 261 in Demarcation District No. 390.</p> <p>Lot No. 261 in Demarcation District No. 390 is held under New Grant No. TW6771 for a term from 1 September 1990 to 30 June 2047. The Government rent payable is at 3% of the rateable value for the time being of the property.</p>
Monthly Rental Income as at 31 December 2017	Approximately HK\$495,000 exclusive of rates and Government rent, management fees and utility charges.
Market Value in Existing State as at 31 December 2017	HK\$120,000,000 (Hong Kong Dollars One Hundred and Twenty Million)
Estimated Net Property Yield	5.0%

The valuation report contains herein is in summary form. A full version in English is available for public inspection at the registered office of the Manager.

REPORT OF THE TRUSTEE

HSBC Institutional Trust Services (Singapore) Limited (the “**Trustee**”) is under a duty to take into custody and hold the assets of Fortune Real Estate Investment Trust (“**Fortune REIT**”) and its subsidiaries in trust for the holders (“**Unitholders**”) of units in Fortune REIT.

Fortune REIT is constituted by the trust deed dated 4 July 2003 between the Manager and the Trustee, as amended and/or supplemented by the First Amending and Restating Deed dated 29 June 2005, the Second Supplemental Deed dated 20 April 2006, the Third Supplemental Deed dated 12 October 2009, the Fourth Supplemental Deed dated 26 February 2010, the Fifth Supplemental Deed dated 26 March 2010, the Sixth Supplemental Deed dated 23 July 2010, the Seventh Supplemental Deed dated 12 January 2012 and the Second Amending and Restating Deed dated 8 May 2015 and may be further amended or supplemented to from time to time (collectively, the “**Trust Deed**”).

In accordance with, inter alia, the Securities and Futures Act, Chapter 289 of Singapore, its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of the Manager for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting year and report thereon to Unitholders in an annual report.

Under the Code on Real Estate Investment Trusts published by the Hong Kong Securities and Futures Commission, the Trustee shall, among other things, oversee the activities of the Manager for compliance with the Trust Deed, and regulatory requirements applicable to Fortune REIT, and shall issue a report to the Unitholders, to be included in the annual report, on whether in the Trustee’s opinion, the Manager has in all material respects, managed Fortune REIT in accordance with the provisions of the Trust Deed.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed Fortune REIT and its subsidiaries during the financial year covered by these financial statements in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed. The Trustee further confirms that, in its opinion, the Manager has, in all material respects, managed Fortune REIT in accordance with the provisions of the Trust Deed during the financial year ended 31 December 2017.

For and on behalf of the Trustee,

HSBC Institutional Trust Services (Singapore) Limited

Singapore
23 January 2018



STATEMENT BY THE MANAGER

In the opinion of the Directors of ARA Asset Management (Fortune) Limited (the “**Manager**”), the consolidated financial statements of Fortune Real Estate Investment Trust (“**Fortune REIT**”) and its subsidiaries (collectively referred to as the “**Group**”) and separate financial statements of Fortune REIT set out on pages 106 to 165, which comprise the consolidated and Fortune REIT’s statements of financial position as at 31 December 2017, and statements of profit or loss and other comprehensive income, statements of changes in net assets attributable to unitholders, statements of cash flows of the Group and Fortune REIT and distribution statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies are properly drawn up in accordance with the International Financial Reporting Standards and the Trust Deed so as to give a true and fair view of the financial disposition of the Group and of Fortune REIT as at 31 December 2017 and of their financial transactions and cash flows for the year then ended. At the date of this statement, there are reasonable grounds to believe that Fortune REIT will be able to meet its financial obligations as and when they materialise.

The consolidated and separate financial statements on pages 106 to 165 were approved and authorised for issue by the Manager on 23 January 2018.

For and on behalf of the Manager,

ARA Asset Management (Fortune) Limited

Chiu Yu, Justina

Director

23 January 2018



INDEPENDENT AUDITORS' REPORT

Deloitte.

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To the Unitholders of Fortune Real Estate Investment Trust

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Fortune Real Estate Investment Trust ("**Fortune REIT**") and its subsidiaries (collectively referred to as the "**Group**") and separate financial statements of Fortune REIT set out on pages 106 to 165, which comprise the consolidated and Fortune REIT's statements of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, statements of changes in net assets attributable to unitholders, statements of cash flows of the Group and Fortune REIT and distribution statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial disposition of Fortune REIT and of the Group as at 31 December 2017, and of their financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter for the audit of the consolidated financial statements of the Group	How our audit addressed the key audit matter
<p>Valuation of investment properties</p> <p>We identified the valuation of investment properties (including investment properties of a disposal company classified as held for sale) as a key audit matter as they represented 98% of total assets of the Group as at 31 December 2017 and significant judgement is required in determining their fair value.</p> <p>As disclosed in note 14 to the financial statements, investment properties of the Group are retail properties in Hong Kong comprise of retail space and car parking spaces. The carrying amounts of investment properties amounted to HK\$38,812 million (of which HK\$1,061 million are included in assets of a disposal company classified as held for sale as disclosed in note 18 to the financial statements) as at 31 December 2017 and their change in fair value included in the profit for the year was HK\$2,392 million. As disclosed in note 14(i) to the financial statements, in estimating the fair value of investment properties, ARA Asset Management (Fortune) Limited (the “Manager” of Fortune REIT) engaged an independent qualified external valuer (the “Valuer”) to perform the valuation and worked with the Valuer to establish inputs to the valuation model.</p> <p>As disclosed in notes 4(a) and 14 to the financial statements, the fair value is based on the valuation performed by the Valuer using income capitalisation approach which is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rent and management fees) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. This involves the making of certain assumptions and the use of estimates in respect of the capitalisation rate, by reference to the yields derived from analysing the sales transactions of similar properties in Hong Kong and adjusted to take account of the Valuer’s knowledge of the market expectation from property investors to reflect factors specific to the Group’s investment properties. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.</p>	<p>Our procedures in relation to the valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluating the competence, capabilities and objectivity of the Valuer; • Obtaining an understanding of the valuation process and significant assumptions and critical judgement areas to assess if the approaches are consistent with relevant accounting requirements and industry norms; • Evaluating the appropriateness of the judgements made by the Manager and the Valuer, in particular the valuation model and the capitalisation rate based on our knowledge of the property market in Hong Kong; and • Assessing the reasonableness of other key parameters, including market rentals, in the valuation model by comparing them against market data and entity-specific information such as rental income, tenancy summary, capital expenditures details and size of the properties on a sampling basis.

We have determined that there are no key audit matters for the separate financial statements of Fortune REIT to communicate in our report.

INDEPENDENT AUDITORS' REPORT

Other Information

The Manager is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Manager and Those Charged with Governance for the Financial Statements

The Manager is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Group's and Fortune REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group, Fortune REIT or to cease operations, or has no realistic alternative but to do so.

In addition, the Manager is required to ensure that the financial statements have been properly prepared in accordance with the relevant provision of the trust deed dated 4 July 2003 (as amended) (the "**Trust Deed**"), the relevant requirements of the Code on Collective Investment Schemes (the "**CIS Code**") issued by the Monetary Authority of Singapore and the relevant disclosure provisions of Appendix C of the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Hong Kong Securities and Futures Commission.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant requirements of the CIS Code and the relevant disclosure provisions of Appendix C of the REIT Code.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Fortune REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Fortune REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant requirements of the CIS Code and the relevant disclosure provisions of Appendix C of the REIT Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant requirements of the CIS Code and the relevant disclosure provisions of Appendix C of the REIT Code.

The engagement partners on the audit resulting in this independent auditors' report are Cheung Chung Yin Lawrence and Jeremy Toh Yew Kuan.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

23 January 2018

Deloitte & Touche LLP*Public Accountants and Chartered Accountants*

Singapore

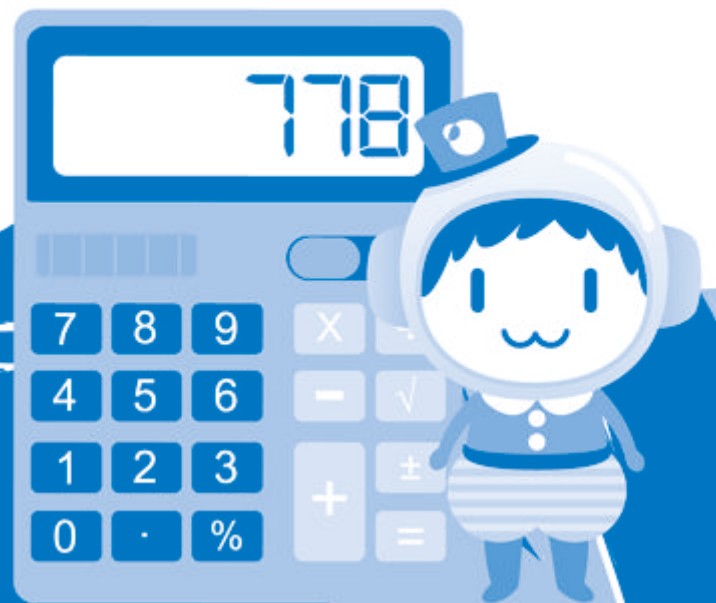
23 January 2018



FINANCIAL STATEMENTS

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STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	Group		Fortune REIT	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	6	2,030,152	1,975,376	974,853	939,626
Property operating expenses	7	(528,330)	(521,931)		
Net property income (before manager's performance fee)		1,501,822	1,453,445		
Manager's performance fee		(45,076)	(43,664)		
Net property income		1,456,746	1,409,781		
Manager's base fee		(112,654)	(108,796)	(112,654)	(108,795)
Foreign currency exchange gain		397	47	397	47
Interest income		706	2,023	-	-
Trust expenses	8	(17,109)	(18,665)	(21,961)	(41,755)
Change in fair value of investment properties		2,391,549	377,039	-	-
Change in fair value of derivative financial instruments		(31,210)	91,751	-	-
Finance costs	9	(268,088)	(283,616)	-	-
Profit before taxation and transactions with unitholders	10	3,420,337	1,469,564	840,635	789,123
Income tax expense	11	(219,347)	(211,651)	-	-
Profit for the year, before transactions with unitholders		3,200,990	1,257,913	840,635	789,123
Distributions to unitholders		(970,760)	(935,191)	(970,760)	(935,191)
Profit/(loss) for the year, after transactions with unitholders		2,230,230	322,722	(130,125)	(146,068)
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/ (expense) for year		2,230,230	329,763	(130,125)	(146,068)
Income available for distribution to unitholders		970,760	935,191		
Basic earnings per unit (HK cents)	12	167.70	66.33		

DISTRIBUTION STATEMENT

For the year ended 31 December 2017

		Group	
	<i>Notes</i>	2017	2016
		HK\$'000	HK\$'000
Profit for the year, before transactions with unitholders		3,200,990	1,257,913
Adjustments:			
Manager's base fee		112,654	108,796
Change in fair value of investment properties		(2,391,549)	(377,039)
Change in fair value of derivative financial instruments		31,210	(91,751)
Front end fees		4,852	23,090
Foreign currency exchange gain		(397)	(47)
Other non-tax deductible trust expenses		13,000	14,229
Income available for distribution	<i>(i)</i>	970,760	935,191
Distributions to unitholders			
25.53 HK cents (2016: 24.78 HK cents) per unit for the six months ended 30 June	<i>(ii)</i>	487,324	470,008
25.25 HK cents (2016: 24.45 HK cents) per unit for the six months ended 31 December	<i>(iii)</i>	483,436	465,183
Income available for distribution		970,760	935,191
Distribution per unit (HK cents)		50.78	49.23

No distribution statement of Fortune Real Estate Investment Trust ("**Fortune REIT**") is presented as the amount of distribution to unitholders is determined based on consolidated results of the Group.

Notes:

- (i) The distribution policy of Fortune REIT has been amended on 26 March 2010 pursuant to the extraordinary resolution passed on the same date for the purpose of allowing Fortune REIT to comply with the relevant Hong Kong regulatory requirements, including the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by The Securities and Futures Commission of Hong Kong ("**SFC**"). The current distribution policy, as amended, obliges Fortune REIT 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 ARA Asset Management (Fortune) Limited (the "**Manager**") after deduction of applicable expenses ("**Net Tax-Exempt Income**"); 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 the REIT Code ("**Net Profit After Tax**").

Net Tax-Exempt Income and Net Profit After Tax for the year ended 31 December 2017 is HK\$970.8 million (2016: HK\$935.2 million) and HK\$901.4 million (2016: HK\$870.4 million), respectively. Accordingly, the income available for distribution, based on the Net Tax-Exempt Income, of HK\$970.8 million (2016: HK\$935.2 million) would be distributed to unitholders for the year ended 31 December 2017.

- (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 for the period of HK\$487.3 million (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). The distribution amounting to HK\$487.3 million (six months ended 30 June 2016: HK\$470.0 million) was paid on 29 August 2017 (six months ended 30 June 2016: 29 August 2016).
- (iii) The distribution per unit of 25.25 HK cents for the six months ended 31 December 2017 (six months ended 31 December 2016: 24.45 HK cents) is calculated based on the income available for distribution for the period of HK\$483.4 million (six months ended 31 December 2016: HK\$465.2 million) over 1,914,348,385 units (31 December 2016: 1,902,127,947 units), representing issued units as at 31 December 2017 of 1,911,276,107 units (31 December 2016: 1,898,950,572 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 2017 of 3,072,278 units (fourth quarter of 2016: 3,177,375 units). The distribution amounting to HK\$483.4 million (six months ended 31 December 2016: HK\$465.2 million) will be paid on 28 February 2018 (six months ended 31 December 2016: 1 March 2017).

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Notes	Group		Fortune REIT	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Investments in subsidiaries	13	–	–	6,817,589	6,817,589
Investment properties	14	37,751,000	36,368,000	–	–
Derivative financial instruments	15	19,279	50,702	–	–
Total non-current assets		37,770,279	36,418,702	6,817,589	6,817,589
Current assets					
Trade and other receivables	16	266,958	67,280	2,253	6,988
Bank balances and cash	17	516,036	585,217	485,638	481,665
Derivative financial instruments	15	668	–	–	–
		783,662	652,497	487,891	488,653
Assets of a disposal company classified as held for sale	18	1,068,187	–	–	–
Total current assets		1,851,849	652,497	487,891	488,653
Total assets		39,622,128	37,071,199	7,305,480	7,306,242
Non-current liabilities					
Derivative financial instruments	15	5,790	4,965	–	–
Borrowings	19	9,286,423	10,229,967	–	–
Deferred tax liabilities	20	444,146	426,802	–	–
Total non-current liabilities		9,736,359	10,661,734	–	–
Current liabilities					
Trade and other payables	21	967,726	753,220	12,771	14,315
Borrowings	19	1,496,788	630,000	–	–
Derivative financial instruments	15	–	370	–	–
Distribution payable		483,436	465,183	483,436	465,183
Provision for taxation		11,324	15,809	17	17
		2,959,274	1,864,582	496,224	479,515
Liabilities directly associated with assets of a disposal company classified as held for sale	18	38,728	–	–	–
Total current liabilities		2,998,002	1,864,582	496,224	479,515
Total liabilities, excluding net assets attributable to unitholders		12,734,361	12,526,316	496,224	479,515
Net assets attributable to unitholders		26,887,767	24,544,883	6,809,256	6,826,727
Units in issue and to be issued ('000)	22	1,914,348	1,902,128		
Net asset value per unit attributable to unitholders (HK\$)	23	14.05	12.90		

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2017

GROUP

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2016	7,771,032	(286,279)	(7,041)	16,628,612	24,106,324
OPERATIONS					
Profit for the year, before transactions with unitholders	-	-	-	1,257,913	1,257,913
Distribution paid and payable of 24.78 HK cents per unit for the six months ended 30 June 2016	-	-	-	(470,008)	(470,008)
Distribution payable of 24.45 HK cents per unit for the six months ended 31 December 2016	-	-	-	(465,183)	(465,183)
Change in fair value of derivative financial instruments under cash flow hedge	-	-	3,256	-	3,256
Release to profit or loss	-	-	3,785	-	3,785
Total comprehensive income for the year	-	-	7,041	322,722	329,763
UNITHOLDERS' TRANSACTIONS					
Creation of units					
- Manager's base fee paid/payable in units	108,796	-	-	-	108,796
Increase in net assets resulting from unitholders' transactions	108,796	-	-	-	108,796
Net assets attributable to unitholders as at 31 December 2016	7,879,828	(286,279)	-	16,951,334	24,544,883
OPERATIONS					
Profit for the year, before transactions with unitholders	-	-	-	3,200,990	3,200,990
Distribution paid and payable of 25.53 HK cents per unit for the six months ended 30 June 2017	-	-	-	(487,324)	(487,324)
Distribution payable of 25.25 HK cents per unit for the six months ended 31 December 2017	-	-	-	(483,436)	(483,436)
Total comprehensive income for the year	-	-	-	2,230,230	2,230,230
UNITHOLDERS' TRANSACTIONS					
Creation of units					
- Manager's base fee paid/payable in units	112,654	-	-	-	112,654
Increase in net assets resulting from unitholders' transactions	112,654	-	-	-	112,654
Net assets attributable to unitholders as at 31 December 2017	7,992,482	(286,279)	-	19,181,564	26,887,767

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2017

FORTUNE REIT

	Units in issue and to be issued HK\$'000	Unit issue costs HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2016	7,771,032	(286,279)	(620,754)	6,863,999
OPERATIONS				
Profit for the year, before transactions with unitholders	-	-	789,123	789,123
Distribution paid and payable of 24.78 HK cents per unit for the six months ended 30 June 2016	-	-	(470,008)	(470,008)
Distribution payable of 24.45 HK cents per unit for the six months ended 31 December 2016	-	-	(465,183)	(465,183)
Total comprehensive expense for the year	-	-	(146,068)	(146,068)
UNITHOLDERS' TRANSACTIONS				
Creation of units				
- Manager's base fee paid/payable in units	108,796	-	-	108,796
Increase in net assets resulting from unitholders' transactions	108,796	-	-	108,796
Net assets attributable to unitholders as at 31 December 2016	7,879,828	(286,279)	(766,822)	6,826,727
OPERATIONS				
Profit for the year, before transactions with unitholders	-	-	840,635	840,635
Distribution paid and payable of 25.53 HK cents per unit for the six months ended 30 June 2017	-	-	(487,324)	(487,324)
Distribution payable of 25.25 HK cents per unit for the six months ended 31 December 2017	-	-	(483,436)	(483,436)
Total comprehensive expense for the year	-	-	(130,125)	(130,125)
UNITHOLDERS' TRANSACTIONS				
Creation of units				
- Manager's base fee paid/payable in units	112,654	-	-	112,654
Increase in net assets resulting from unitholders' transactions	112,654	-	-	112,654
Net assets attributable to unitholders as at 31 December 2017	7,992,482	(286,279)	(896,947)	6,809,256

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Operating activities				
Profit before taxation and transactions with unitholders	3,420,337	1,469,564	840,635	789,123
Adjustments for:				
Manager's base fee paid/payable in units	112,654	108,796	112,654	108,796
Change in fair value of investment properties	(2,391,549)	(377,039)	-	-
Change in fair value of derivative financial instruments	31,210	(91,751)	-	-
Interest income	(706)	(2,023)	-	-
Finance costs	268,088	283,616	4,852	23,090
Operating cash flows before movement in working capital	1,440,034	1,391,163	958,141	921,009
(Increase)/decrease in trade and other receivables	(4,571)	6,112	4,735	748
Increase/(decrease) in trade and other payables	39,489	78,925	(6,115)	5,095
Cash generated from operations	1,474,952	1,476,200	956,761	926,852
Income tax paid	(193,090)	(183,751)	-	(64)
Net cash from operating activities	1,281,862	1,292,449	956,761	926,788
Investing activities				
Upgrading of investment properties	(52,451)	(72,961)	-	-
Interest received	708	2,072	-	-
Net cash used in investing activities	(51,743)	(70,889)	-	-
Financing activities				
Drawdown of borrowings	2,530,000	7,830,000	-	-
Repayment of borrowings	(2,626,300)	(7,942,691)	-	-
Distribution paid	(952,788)	(913,986)	(952,788)	(913,986)
Interest paid	(235,918)	(243,005)	-	-
Payment of front end fees	(12,000)	(77,000)	-	-
Net cash used in financing activities	(1,297,006)	(1,346,682)	(952,788)	(913,986)
Net (decrease)/increase in cash and cash equivalents	(66,887)	(125,122)	3,973	12,802
Cash and cash equivalents at beginning of the year	585,217	710,339	481,665	468,863
Cash and cash equivalents at end of the year	518,330	585,217	485,638	481,665
Represented by:				
Cash at bank and in hand	516,036	550,217	485,638	481,665
Cash at bank included in assets classified as held for sale	2,294	-	-	-
Fixed deposits with original maturity date less than 3 months	-	35,000	-	-
	518,330	585,217	485,638	481,665

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL

Fortune Real Estate Investment Trust ("**Fortune REIT**") is a real estate investment trust constituted by a trust deed entered into on 4 July 2003 (as amended) (the "**Trust Deed**") 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 The Stock Exchange of Hong Kong Limited and secondary listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

The registered offices and principal places of business of the Manager in Singapore and Hong Kong are 6 Temasek Boulevard, #16-02 Suntec Tower 4, Singapore 038986 and Units 5508-5510, 55th Floor, The Center, 99 Queen's Road Central, Hong Kong, respectively.

The registered office and principal place of business of the Trustee is 21 Collyer Quay #13-02, HSBC Building, Singapore 049320.

The consolidated and Fortune REIT's separate financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the functional currency of Fortune REIT.

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.

The consolidated and separate financial statements on pages 106 to 165 were authorised for issue by the Manager on 23 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL (Continued)

The Group has entered into several service agreements in relation to the management of Fortune REIT and its property operations. The fee structures of these services are as follows:

(a) Property management fees

Property management fee

Under the property management agreement ("**Property Management Agreement**"), Goodwell-Fortune Property Services Limited (the "**Property Manager**"), which is a connected party of Fortune REIT, will receive from each of the property holding subsidiaries (the "**Property Companies**") a fee of 3.0% per annum of gross property revenue for the provision of property management services and lease management services.

In respect of Provident Square, the Property Manager has engaged Whampoa Property Management Limited, which is a connected party of Fortune REIT, to provide part of the property management services.

Gross property revenue means the amount equivalent to the gross revenue less charge-out collections and carpark revenue.

Marketing services fee

For marketing services, the Property Companies will pay the Property Manager the following leasing and other commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10.0% of total licence fee for securing a licence for duration of less than 12 months.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL (Continued)

(b) Trustee's fees

The Trustee's fees are 0.035% per annum (subject to a minimum of HK\$50,000 per month) on the value of the real estate properties and are accrued daily and paid monthly in arrears in accordance with the Trust Deed.

(c) Manager's fees

The Manager is entitled to receive the following remuneration for the provision of asset management services:

Base fee

Under the Trust Deed (Clause 15.1.1), the Manager will receive a base fee from Fortune REIT at a rate not exceeding 0.3% per annum on the value of the properties. The base fee will be paid quarterly in arrears and in the form of units in Fortune REIT during the first five years after the units are listed on the SGX-ST. Thereafter, the base fee shall be paid to the Manager in the form of cash or units as the Manager may elect.

Performance fee

Under the Trust Deed (Clause 15.1.2), the Manager will receive a performance fee in the form of cash from each of the Property Companies at 3.0% per annum of the net property income of the Property Companies with certain adjustment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL (Continued)**(d) Acquisition fee and divestment fee**

The Manager is entitled to receive the following fees:

Acquisition fee

Under the Trust Deed (Clause 15.2.1), the Manager will receive an acquisition fee of not exceeding a maximum of 1.0% of the acquisition price for any real estate purchased directly or indirectly by Fortune REIT (pro-rated if applicable to the proportion of Fortune REIT's interest in the real estate acquired) in the form of cash or units as the Manager may elect.

Divestment fee

Under the Trust Deed (Clause 15.2.1), the Manager will receive a divestment fee of not exceeding a maximum of 1.0% of the sale price of any real estate directly or indirectly sold or divested by Fortune REIT (pro-rated if applicable to proportion of Fortune REIT's interest in the real estate sold) in the form of cash, provided that:

- (a) in the case of a sale or divestment in connection with which the Manager:
 - (A) has not engaged any third party agent or broker; or
 - (B) has engaged third party agent(s) or broker(s) and the aggregate fees payable to such third party agent(s) or broker(s) therefor do not exceed the rate of 0.5% of the sale price, such Divestment Fee shall not exceed the rate of 0.5% of the sale price; and
- (b) in the case of a sale or divestment in connection with which the Manager has engaged third party agent(s) or broker(s) and the aggregate fees payable to such third party agent(s) or broker(s) therefor exceed the rate of 0.5% of the sale price, such Divestment Fee shall be the actual aggregate fees payable therefor to such third party agent(s) or broker(s) in any Case not exceeding the rate of 1.0% of the sale price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The International Accounting Standards Board (“**IASB**”) has issued a number of new and revised International Financial Reporting Standards (“**IFRSs**”). Except as described below, 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.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 31. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 31, the application of these amendments has had no impact on the Group’s consolidated financial statements.

The Group has not early adopted the following new and revised 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**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 financial assets are measured at their fair value at 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.
- for non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Classification and measurement

Based on the Group's profile of financial instruments and risk management policies as at 31 December 2017, the Manager anticipates the impact on initial application of IFRS 9 will not be material 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

In general, the Manager anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

The Manager has reviewed the Group's financial instruments as at 31 December 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 and Fortune REIT based on our analysis of the Group's and Fortune REIT's existing business model.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- 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 entity satisfies a performance obligation

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Under IFRS 15, an entity 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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Manager anticipates that the application of IFRS 15 in the future may result in more disclosures, however, the Manager does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue to be recognised in the respective reporting periods.

The Manager anticipates that the rest of the new and revised IFRSs that are not yet effective are not expected to have any material impact on the Group and Fortune REIT when they become effective.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and the measurements that have same similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated and Fortune REIT's separate financial statements have been prepared in accordance with IFRSs issued by IASB, and are drawn up in accordance with the relevant provisions of the Trust Deed, the relevant requirements of the Code on Collective Investment Schemes (the "**CIS Code**") issued by the Monetary Authority of Singapore ("**MAS**") and the Code on Real Estate Investment Trust (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong ("**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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Fortune REIT and entities controlled by Fortune REIT and its subsidiaries. Control is achieved when Fortune REIT:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Fortune REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

Consolidation of a subsidiary begins when Fortune REIT obtains control over the subsidiary and ceases when Fortune REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Fortune REIT gains control until the date when Fortune REIT ceases to control the subsidiary.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Income and expenses of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by Fortune REIT.

All intra-group assets and liabilities, income, expenses and cashflow are eliminated in full on consolidation.

(c) Acquisition of assets not constituting a business

When the Group acquires an asset or a group of assets and liabilities that does not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(d) Investments in subsidiaries

Investments in subsidiaries are included in Fortune REIT's statement of financial position at cost less any identified impairment loss. Results of subsidiaries are accounted for by Fortune REIT on the basis of dividends received or receivable during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

(f) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs, including front-end fees and commitment fees, that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into “financial assets at fair value through profit or loss” and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. When such receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Impairment of financial assets (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities.

Unit issue costs are the transactions costs relating to issue of units in Fortune REIT which are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transactions that otherwise would have been avoided. Other transaction costs are recognised as an expense.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at fair value through profit or loss

A financial liability carried at FVTPL when the financial liability is held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**(f) Financial instruments (Continued)****Other financial liabilities**

Debt is classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

In accordance with the Trust Deed, Fortune REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period. This provision in the Trust Deed provides the unitholders with a right to receive distribution which Fortune REIT has a contractual obligation to pay or declare at least 90% of its distributable income.

Accordingly, the unitholders' funds are compound instruments in accordance with IAS 32: *Financial Instruments: Presentation* ("**IAS 32**"). Unitholders' fund presented on the consolidated statement of financial position as net assets attributable to unitholders is classified as financial liabilities because the equity component is considered insignificant.

Other than the net assets attributable to unitholders of Fortune REIT, non-derivative financial liabilities include trade and other payables, distribution payable and borrowings. They are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group uses interest rate swaps and caps to hedge its exposure against changes in interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Derivative financial instruments and hedging (Continued)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in other comprehensive income and accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in hedging reserve is recognised immediately in profit or loss.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or has expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**(h) Revenue recognition (Continued)**

Rental income under operating leases, except for contingent rentals, is recognised in the profit or loss on a straight-line basis over the term of the relevant lease. In the event that lease incentives, including rent free periods, are given to enter into operating leases, such incentives are recognised in accrued rent receivables. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on a receipt basis. No contingent rentals are recognised if there are uncertainties due to the possible return of amounts received.

Charge-out collections, which consist of payments in respect of the operation of the properties which are payable by the tenants and licensees, are recognised as income when the services and facilities are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from subsidiaries is recognised when Fortune REIT's right to receive payment has been established.

(i) Foreign currencies

The functional currency (the currency of the primary economic environment in which the entity operates) of Fortune REIT and its subsidiaries is Hong Kong dollars.

In preparing the financial statements of each individual entity, transactions in currencies other than Hong Kong dollars are recorded in Hong Kong dollars at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Front-end fees incurred are amortised on a straight-line basis over the contractual term of the borrowings in the separate financial statements. These fees are treated as transaction costs of the Group's borrowings and included in determining the effective interest rate on initial recognition of the borrowings in the consolidated financial statements.

(k) Impairment of investments in subsidiaries

At the end of the reporting period, Fortune REIT reviews the carrying amounts of its investments in subsidiaries to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of investments in subsidiaries is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of investments in subsidiaries is estimated to be less than its carrying amount, the carrying amount of investments in subsidiaries is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of investments in subsidiaries is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Manager is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, the Manager is of the opinion that there are no instances of application of judgments or the use of estimation techniques which may have a significant effect on the amounts recognised in the financial statements other than as follows:

(a) Valuation of investment properties

As described in Notes 3(e) and 14, the fair value is based on the valuation performed by an independent qualified external valuer using income capitalisation approach which is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rent and management fees) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. This involves the making of certain assumptions and the use of estimates in respect of the capitalisation rate, by reference to the yields derived from analysing the sales transactions of similar properties in Hong Kong and adjusted to take account of the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. The carrying amount of the investment properties (including investment properties of a disposal company classified as held for sale) at 31 December 2017 was HK\$38,812 million (of which HK\$1,061 million is included in assets of a disposal company classified as held for sale as disclosed in Note 18 to the financial statements) (31 December 2016: HK\$36,368 million).

(b) Valuation of derivative financial instruments

As described in Note 15, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

The carrying amount of derivative financial instruments at 31 December 2017 represented assets amounting to HK\$19.9 million (31 December 2016: HK\$50.7 million) and liabilities amounting to HK\$5.8 million (31 December 2016: HK\$5.3 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 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 31 December 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 property or operating segments are aggregated into a single reportable segment and no further analysis for segment information is presented.

6 REVENUE

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Dividend income from subsidiaries	–	–	974,853	939,626
Base rental	1,480,874	1,437,915	–	–
Charge-out collections	348,923	342,346	–	–
Other rental	196,361	194,282	–	–
Other income	3,994	833	–	–
	2,030,152	1,975,376	974,853	939,626

The other rental mainly includes contingent rents of HK\$12.2 million (2016: HK\$15.4 million), license fees of HK\$70.2 million (2016: HK\$70.3 million) and car park revenue of HK\$105.9 million (2016: HK\$98.5 million).

7 PROPERTY OPERATING EXPENSES

	Group	
	2017 HK\$'000	2016 HK\$'000
Building management expenses	218,921	211,499
Utilities	51,350	59,179
Government rents and rates	107,314	101,782
Property management fee	47,277	46,035
Carpark operating expenses	28,092	26,092
Advertising and promotion	16,634	22,970
Legal and other professional fees	8,730	10,445
Leasing commission and marketing services fee	36,204	28,386
Others	13,808	15,543
	528,330	521,931

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8 TRUST EXPENSES

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Trustee's fee	13,000	12,666	13,000	12,666
Amortisation of front end fees (Note)	–	–	4,852	23,090
Other charges	4,109	5,999	4,109	5,999
	17,109	18,665	21,961	41,755

Note: Included in the amortisation of front end fees of HK\$4,852,000 (2016: HK\$23,090,000), HK\$4,159,000 (2016: HK\$8,775,000) represented the front end fees written off upon early repayment of term loans during the year. Front end fees amortised by Fortune REIT in respect of its subsidiaries' bank borrowings are not recharged to the subsidiaries.

9 FINANCE COSTS

	Group	
	2017 HK\$'000	2016 HK\$'000
Interest expense on		
– term loans	181,711	164,628
– revolving loans	2,865	8,517
Equalisation of interest expense through interest rate swaps and caps	48,676	66,881
Commitment fee	3,292	2,956
Front end fees		
– amortisation	24,940	31,859
– written off upon early repayment of loans	6,604	8,775
	268,088	283,616

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

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

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000 (Note)	2016 HK\$'000 (Note)
Audit fees to external auditors	1,845	1,934	451	468
Non-audit services fee to external auditors	1,136	1,100	–	–
Fee to internal auditor	330	330	–	–
Valuation fees (paid to principal valuer)	640	483	–	–
Bank charges	406	328	10	7
Public relation and non-deal roadshow expenses	1,215	1,816	454	900

Note: These expenses are classified as Trust Expenses in Note 8.

11 INCOME TAX EXPENSE

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Current tax:				
– Hong Kong	189,036	179,883	–	–
– Singapore	–	–	–	–
– Over provision in prior year	(431)	(167)	–	–
	188,605	179,716	–	–
Deferred taxation (Note 20)				
– Current year	30,711	32,081	–	–
– Under/(over) provision in prior year	31	(146)	–	–
	30,742	31,935	–	–
	219,347	211,651	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 INCOME TAX EXPENSE (Continued)

Fortune REIT's subsidiaries in Hong Kong are subject to Hong Kong profits tax at 16.5% (2016: 16.5%).

Fortune REIT, which is established in Singapore, is subject to Singapore income tax at 17% (2016: 17%). No provision for Singapore income tax has been made as Fortune REIT had no assessable profit for the year.

At present, Fortune REIT has not been accorded the tax transparency treatment and income earned will be subject to Singapore income tax at the prevailing corporate tax rate.

The Ministry of Finance of Singapore ("MOF") has issued a tax ruling on the taxation of Fortune REIT for income earned and expenditure incurred after its listing on 12 August 2003. Subject to meeting the terms and conditions of tax ruling, the Singapore taxation of Fortune REIT is described below:

(i) Tax-Exempt Income

Fortune REIT is exempt from Singapore income tax on the dividends received from its subsidiaries that are distributed out of income (including interest income and gains from the sale of properties) which have been subject to Hong Kong Profits Tax at a rate of not less than 15%.

(ii) Taxable Income

Fortune REIT is subject to Singapore income tax on dividends received from its subsidiaries that are paid out of income or gains which are not subject to Hong Kong Profits Tax (except for gains from the sale of investments in Property Companies that are capital in nature), and on all income derived from or accrued in Singapore, or received in Singapore from outside Singapore.

(iii) Non-Taxable Capital Gain

Fortune REIT is not subject to Singapore income tax on the gains from the disposal of investments in its subsidiaries that have been confirmed by MOF to be capital gains.

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For the year ended 31 December 2017

11 INCOME TAX EXPENSE (Continued)

The income tax varied from the amount of income tax determined by applying the applicable Hong Kong profits tax rate of 16.5% (2016: 16.5%) and Singapore income tax rate of 17% (2016: 17%) for the Group and Fortune REIT respectively to the profit before taxation and transactions with unitholders as a result of the following differences:

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Profit before taxation and transactions with unitholders	3,420,337	1,469,564	840,635	789,123
Tax at the applicable income tax rate	564,356	242,478	142,908	134,151
Tax effect of expenses not deductible for tax purpose	49,202	49,146	22,817	25,586
Tax effect of income not taxable for tax purpose	(394,789)	(82,074)	(165,725)	(159,737)
Over provision in prior years	(400)	(313)	–	–
Others	978	2,414	–	–
Taxation for the year	219,347	211,651	–	–

Hong Kong profits tax rate is used as it is the jurisdiction where the operations of the Group are substantially based.

12 EARNINGS PER UNIT

Basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders by the weighted average number of units outstanding during the year as follows:

	Group	
	2017 HK\$'000	2016 HK\$'000
Profit for the year, before transactions with unitholders	3,200,990	1,257,913
Weighted average number of units outstanding during the year Number of units ('000)	1,908,732	1,896,574
Basic earnings per unit (HK cents)	167.70	66.33

The weighted average number of units outstanding during the year takes into account the 3,072,278 (2016: 3,177,375) units issuable as Manager's base fee for the period from 1 October 2017 to 31 December 2017 (2016: 1 October 2016 to 31 December 2016), which were issued to the Manager on 2 January 2018 (2016: 3 January 2017).

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

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For the year ended 31 December 2017

13 INVESTMENTS IN SUBSIDIARIES

	Fortune REIT	
	2017	2016
	HK\$'000	HK\$'000
Unquoted ordinary shares, at cost	3,033,109	3,033,109
Unquoted preference shares, at cost	3,784,270	3,784,270
Unquoted deferred shares, at cost	210	210
	6,817,589	6,817,589

Particulars of the principal subsidiaries which are wholly owned by Fortune REIT as at 31 December 2017 and 2016 are as follows:

Name of company	Country/ Place of incorporation	Effective equity interest held by Fortune REIT		Issued and fully paid capital			Principal activities
		2017	2016	Ordinary shares	Redeemable preference shares	Non-voting deferred shares	
Direct subsidiaries							
Ace Courage Limited	British Virgin Islands ("BVI")	100	100	8	56,058,600		– Property investment in Centre de Laguna
Brilliant Crystal Enterprises Limited	BVI	100	100	8	–		– Financing
FRT Finance (HK) Limited	Hong Kong	100	100	2	–		– Financing
Full Belief Limited	BVI	100	100	8	109,000,000		– Property investment in Hampton Loft
Genuine Joy Limited	BVI	100	100	8	394,690,000		– Property investment in Caribbean Square
Lion Year Holdings Limited	BVI	100	100	8	–		– Financing
Max Dynamic Investments Limited	BVI	100	100	8	–		– Financing
Partner Now Limited	BVI	100	100	8	30,810,000		– Property investment in Lido Avenue
Poko Shine Limited	Hong Kong	100	100	2	874,570,000		– Property investment in Ma On Shan Plaza
Prolific Rainbow Limited	BVI	100	100	8	–		– Financing
Proven Effort Limited	BVI	100	100	8	17,495,400		– Property investment in Rhine Avenue
Quick Switch Limited	BVI	100	100	8	79,000,000		– Property investment in Smartland
Smart Growth Enterprises Limited	BVI	100	100	8	872,625,000		– Investment holding
Team Challenge Limited	BVI	100	100	8	95,620,200		– Property investment in Tsing Yi Square

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Country/ Place of incorporation	Effective equity interest held by Fortune REIT		Issued and fully paid capital			Principal activities
		2017 %	2016 %	Ordinary shares HK\$	Redeemable preference shares HK\$	Non-voting deferred shares HK\$	
Vision Million Limited	BVI	100	100	8	810,000,000	–	Property investment in Fortune Metropolis
Waldorf Realty Limited	Hong Kong	100	100	210,000	–	210,000	Property investment in Waldorf Avenue
Yee Pang Realty Limited	Hong Kong	100	100	10,000	8,000,000	–	Property investment in Jubilee Square
Indirect subsidiaries							
Advance Castle Investment Limited	Hong Kong	100	–	1	–	–	Property investment in Laguna Plaza
Bysean Limited	Hong Kong	100	100	2	–	–	Property investment in part of the Belvedere Square
Bysky Limited	Hong Kong	100	100	2	–	–	Property investment in part of the Belvedere Square
Fullforce Limited	Hong Kong	100	100	2	–	–	Property investment in part of the Belvedere Square
LGF Investment Limited	Hong Kong	100	100	807,000,000	–	–	Property investment in Laguna Plaza (transferred to Advance Castle Investment Limited on 21 March 2017)
Maulden Investments Limited	BVI	100	100	8	–	–	Property investment in Provident Square
Mega Gain Resources Limited	Hong Kong	100	100	1	436,400,000	–	Property investment in Metro Town
Million Nice Development Limited	Hong Kong	100	100	2	–	–	Property investment in Fortune City One
Quebostar Limited	Hong Kong	100	100	100,000	–	–	Property investment in part of the Belvedere Square
Swinley Investments Limited	BVI	100	100	8	–	–	Financing
Tidmarsh Investments Limited	BVI	100	100	8	–	–	Property investment in part of the Belvedere Square
Tin Shui Wai Development Limited	Hong Kong	100	100	1,000	–	–	Property investment in Fortune Kingswood

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

- (i) Information about the composition of the Group at the end of the reporting period is as follows:

Principal activity	Place of incorporation	Number of wholly-owned subsidiaries	
		2017	2016
Property investment	Hong Kong	16	16
Property investment	BVI	10	10
Financing	Hong Kong	1	1
Financing	BVI	5	5
Investment holding or inactive	Cayman Islands	1	1
Investment holding or inactive	Hong Kong	6	5
Investment holding or inactive	BVI	9	9
		48	47

- (ii) All redeemable preference shares issued by the subsidiaries are held by Fortune REIT.

The redeemable preference shares issued by the subsidiaries are redeemable at the option of the subsidiaries and they have the following terms:

- (a) They do not carry any right to dividend;
 - (b) They are not participating (i.e. there is no right to participate in the surplus profits of the subsidiary after payment of dividend to the holders of the ordinary shares);
 - (c) They do not have any voting rights at general meetings of the subsidiary;
 - (d) In the event of a winding up of the subsidiary, the holders of the redeemable preference shares have priority over the holders of the ordinary shares to repayment of capital and premium paid on the issue of such redeemable preference shares, but that the holders of the redeemable preference shares are not entitled to participate in the surplus assets (if any) of the subsidiary; and
 - (e) Each redeemable preference share is redeemable at any time at the option of the subsidiary at a redemption price equal to the issue price thereof.
- (iii) The non-voting deferred shares issued by the subsidiaries, all of which are held by Fortune REIT, are subject to the following restrictions and provisions:
- (a) They do not carry any right to dividend;
 - (b) They do not have any voting rights at general meetings of the subsidiary; and
 - (c) On a return of assets on winding up or otherwise, the assets of the subsidiary to be returned should be distributed as regards the first HK\$100,000,000,000 thereof among the holders of ordinary shares in proportion to the nominal amounts of ordinary shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the other half thereof to and among the holders of the ordinary shares in proportion in each case to the nominal amount of the shares held by them respectively.
- (iv) The place of operations of all the above property investment subsidiaries is Hong Kong.
- (v) Interests in certain subsidiaries were pledged as securities for the loan and credit facility granted by the banks to the subsidiaries as disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INVESTMENT PROPERTIES

Group		
	2017	2016
	HK\$'000	HK\$'000
FAIR VALUE		
At beginning of year	36,368,000	35,918,000
During the year:		
Capital expenditure incurred in upgrading investment properties	52,451	72,961
Transfer to assets of a disposal company classified as held for sale	(1,061,000)	–
Change in fair value of investment properties	2,391,549	377,039
At end of year	37,751,000	36,368,000

Investment properties of the Group are retail properties in Hong Kong comprise of retail space and car parking spaces. Details of the investment properties as at the end of the reporting period are set out below:

Description of property	Tenure of land	Terms of leases	Remaining term of lease	Location	Valuation	
					2017	2016
					HK\$'000	HK\$'000
Fortune City One	Leasehold	149 years	29.5 years	No. 1 & 2 Ngan Shing Street, 8 Lok Shing Street, Shatin, New Territories, Hong Kong	7,939,000	7,422,000
Fortune Kingswood	Leasehold	149 years	29.5 years	Nos. 12 and 18 Tin Yan Road; Nos. 1 and 3 Tin Wu Road; No. 8 Tin Shui Road; Nos. 2 and 9 Tin Lung Road and No. 3 Tin Kwai Road, Tin Shui Wai, Yuen Long, New Territories, Hong Kong	7,462,000	6,881,000
Ma On Shan Plaza	Leasehold	55.5 years	29.5 years	No. 608 Sai Sha Road, Ma On Shan, Shatin, New Territories, Hong Kong	5,489,000	5,181,000
Metro Town	Leasehold	50 years	35 years	No. 8 King Ling Road, Tseung Kwan O, Hong Kong	3,590,000	3,400,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INVESTMENT PROPERTIES (Continued)

Description of property	Tenure of land	Terms of leases	Remaining term of lease	Location	Valuation	
					2017 HK\$'000	2016 HK\$'000
Fortune Metropolis	Leasehold	50.5 years	29.5 years	No. 6–10 Metropolis Drive, Kowloon, Hong Kong	2,557,000	2,414,000
Laguna Plaza	Leasehold	149 years	29.5 years	88 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong	2,450,000	2,280,000
Belvedere Square	Leasehold	149 years	29.5 years	No. 530–590, 620 & 625, Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	2,370,000	2,181,000
Waldorf Avenue	Leasehold	149 years	29.5 years	No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong	1,651,000	1,594,000
Caribbean Square	Leasehold	50 years	29.5 years	No. 1 Kin Tung Road, Tung Chung, New Territories, Hong Kong	1,080,000	991,000
Provident Square	Leasehold	150 years	54 years	No. 21–53 Wharf Road, North Point, Hong Kong	1,061,000	985,000
Jubilee Square	Leasehold	149 years	29.5 years	No. 2–18 Lok King Street, Fo Tan, Shatin, New Territories, Hong Kong	892,000	873,000
Smartland	Leasehold	149 years	29.5 years	No. 16 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong	723,000	700,000
Tsing Yi Square	Leasehold	149 years	29.5 years	No. 7–19 Tsing Luk Street, Tsing Yi, New Territories, Hong Kong	656,000	622,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INVESTMENT PROPERTIES (Continued)

Description of property	Tenure of land	Terms of leases	Remaining term of lease	Location	Valuation	
					2017 HK\$'000	2016 HK\$'000
Centre de Laguna	Leasehold	58 years	29.5 years	93/99 Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong	299,000	275,000
Hampton Loft	Leasehold	50 years	32 years	No. 11 Hoi Fan Road, Kowloon, Hong Kong	283,000	268,000
Lido Avenue	Leasehold	149 years	29.5 years	No. 41-63 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong	190,000	186,000
Rhine Avenue	Leasehold	57 years	29.5 years	No. 38 Castle Peak Road, Sham Tseng, Tsuen Wan, New Territories, Hong Kong	120,000	115,000
					38,812,000	36,368,000
Less: Assets of a disposal company classified as held for sale					(1,061,000)	-
					37,751,000	36,368,000

- (i) In estimating the fair value of investment properties (including the investment property of a disposal company classified as held for sale as disclosed in Note 18), it is the Group's policy to engage an independent qualified external valuer to perform the valuation. The Manager works closely with the valuer to establish appropriate inputs to the valuation model.

As at 31 December 2017 and 2016, independent valuations were undertaken by Knight Frank Petty Limited ("**Knight Frank**") and Savills Valuation and Professional Services Limited ("**Savills**"), respectively. These firms are independent qualified external valuers not related to the Group and have appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was principally arrived at using income capitalisation approach which is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rent and management fees) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. In the valuation, which falls under Level 3 of fair value hierarchy, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield which is the capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions of similar properties in Hong Kong and adjusted to take account of the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 INVESTMENT PROPERTIES (Continued)

(i) (Continued)

The adopted capitalisation rates in the valuation range from 4.3%–5.0% (2016: 4.3%–5.0%). The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and they involve professional judgment in relation to the adjustments made by the valuer. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

(ii) All of the Group's property interests in properties located in Hong Kong are either held under long leases or medium-term leases which are finance lease in nature. The properties have been leased out under operating leases, most of which contain tenancy periods ranging from two to three years. Subsequent renewals are negotiated with the lessees at prevailing market rates.

The carrying amount of investment properties shown above comprise:

	2017 HK\$'000	2016 HK\$'000
Land in Hong Kong:		
Long lease	–	985,000
Medium-term lease	37,751,000	35,383,000
	37,751,000	36,368,000

(iii) Certain properties (including investment property classified as held for sale) with total fair value of HK\$10,283.0 million (2016: HK\$15,286.0 million) as at 31 December 2017 have been mortgaged as collaterals for credit facilities granted by the banks as disclosed in Note 19.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2017 HK\$'000	2016 HK\$'000
Derivative financial instruments are analysed as:		
Derivatives not under hedge accounting:		
Interest rate swaps and caps	14,157	45,367
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Current assets	668	–
Non-current assets	19,279	50,702
Non-current liabilities	(5,790)	(4,965)
Current liabilities	–	(370)
	14,157	45,367

The Group uses interest rate swaps and caps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**Derivatives not under hedge accounting:**

Contracts not under hedge accounting with total notional amount of HK\$6,463.2 million (2016: HK\$7,299.2 million) as at 31 December 2017 will mature from April 2018 to April 2021 (2016: March 2017 to April 2021). These contracts have fixed interest payments at rates ranging from 0.665% to 1.85% (2016: 0.21% to 1.85% per annum) and have floating interest receipts at one or three months Hong Kong Inter-bank Offered Rate ("HIBOR") or at three months HIBOR minus 1.50% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months.

The change in fair value of the derivative financial instruments not under hedge accounting amounting to a loss of HK\$31.2 million (2016: gain of HK\$95.6 million), is recognised in the profit or loss for the year ended 31 December 2017.

During the year ended 31 December 2016, as certain interest rate swap contracts previously designated under hedge accounting were no longer highly effective, the respective cumulative losses from inception of the hedge until then that was previously recognised in hedging reserve remains in equity and is released to profit or loss over the periods during which the interest payment in relation to the interest rate swap contracts affects the profit or loss. Release of such cumulative losses from the hedging reserve amounted to HK\$3.8 million in 2016. Accordingly, the total change in fair value of derivative financial instruments recognised in profit or loss was a net gain of HK\$91.8 million in 2016.

Derivatives under hedge accounting:

During the year ended 31 December 2016, contract with notional amount of HK\$708.2 million were highly effective and matured in April 2016. These contracts had fixed interest payments at 2.017% per annum for the year ended 31 December 2016 and had floating interest receipts at three months with HIBOR being repriced every three months.

The change in fair value of the derivative financial instruments, amounting to a gain of HK\$3.3 million is recognised in the other comprehensive income for the year ended 31 December 2016.

The fair value of derivative financial instruments represented 0.05% (2016: 0.18%) of the net assets of Fortune REIT as at 31 December 2017.

The derivative financial instruments are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the remaining duration of the instruments.

The fair value of derivative financial instruments falls under Level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 TRADE AND OTHER RECEIVABLES

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
(a) Trade receivables				
Outside parties	29,849	32,941	–	–
Related parties (Note 32)	4,880	379	–	–
	34,729	33,320	–	–
(b) Other receivables and prepayments				
Security deposits	25,669	28,102	–	–
Other receivables	204,431	3,840	2,223	2,110
Prepayments	2,129	2,018	30	4,878
	232,229	33,960	2,253	6,988
	266,958	67,280	2,253	6,988

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

	Group	
	2017 HK\$'000	2016 HK\$'000
0–30 days	34,548	33,139
31–90 days	170	102
Over 90 days	11	79
	34,729	33,320

There is no credit period given on billing for rental of properties. No interest is charged on the trade receivables for the first 10 days from the date of the invoice. Interest will be charged on the outstanding amount overdue for more than 10 days at the rate of 12% per annum. The balances of trade receivables include accrued rentals in respect of rent free periods amounted to HK\$27.8 million (2016: HK\$30.5 million).

Included in the Group's trade receivable balance are debtors with a carrying amount of HK\$7.0 million (2016: HK\$2.8 million) which are past due as at the end of the reporting period for which the Group has not provided for doubtful debts as there has not been a significant change on credit quality and the amounts are still considered recoverable. As described in Note 18, a deposit of HK\$200 million in relation to the disposal of all interest in Provident Square held by the Manager's solicitors as stakeholders was included in the Group's other receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 TRADE AND OTHER RECEIVABLES (Continued)

The ageing of the debtors which are past due but not impaired are as follows:

	Group	
	2017	2016
	HK\$'000	HK\$'000
1–30 days	6,790	2,609
31–90 days	170	102
Over 90 days	11	79
	6,971	2,790

In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants. Full allowance will be made on the balance overdue for 90 days after setting off the relevant tenant's deposits. Accordingly, the Manager believes that there is no further credit allowance required in excess of the allowance for doubtful debts.

Fortune REIT's prepayments included front end fees of HK\$4.8 million as at 31 December 2016 in respect of its subsidiaries' bank borrowings.

Other receivables and prepayments which are not denominated in the functional currency of the relevant Group entities are as follows:

	Group and Fortune REIT	
	2017	2016
	HK\$'000	HK\$'000
Denominated in:		
Singapore dollars	2,020	2,125

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17 BANK BALANCES AND CASH

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Cash at bank and in hand	516,036	550,217	485,638	481,665
Fixed deposits with original maturity date less than 3 months	-	35,000	-	-
Cash and cash equivalents	516,036	585,217	485,638	481,665
Effective interest rate per annum	N.A.	0.07%	N.A.	N.A.

The cash and cash equivalents which are not denominated in the functional currency of the relevant Group entities are as follows:

	Group and Fortune REIT	
	2017 HK\$'000	2016 HK\$'000
Denominated in: Singapore dollars	3,852	2,142

18 ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

On 19 December 2017, Fortune REIT (through its special purpose vehicle) entered into a share purchase agreement with an independent third party (the "**Purchaser**") in relation to the disposal of (through the sale of the shares in Maulden Investments Limited, a subsidiary of Fortune REIT) all interests in Provident Square. The consideration payable by the Purchaser shall be the adjusted asset value, being the acquisition value of HK\$2,000 million plus the amount of net current assets or minus the amount of net current liability (as the case may be) of the disposal company as at completion. The Manager considered that the acquisition value of HK\$2,000 million included a significant premium of approximately 88.5% over the fair value of Provident Square as at 31 December 2017. As a result, the fair value of Provident Square using income capitalisation approach as disclosed in Note 14 is the relevant measure to reflect the property's value as at 31 December 2017.

An amount of HK\$200 million was received and held by the Manager's solicitors as deposit and the corresponding amount was included in other payables as set out in Note 21. The Manager considered that the assets and liabilities of Maulden Investments Limited should be classified as held-for-sale as at 31 December 2017 in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations on the basis that the disposal is highly probable and expected to be completed in 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18 ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES (Continued)

Details of the assets and liabilities of Maulden Investments Limited as at 31 December 2017, which have been classified as “Assets of a disposal company classified as held for sale” and “Liabilities directly associated with assets of a disposal company classified as held for sale”, are as follows:

Assets classified as held for sale:

	HK\$'000
Non-current assets	
Investment properties	1,061,000
Current assets	
Trade and other receivables	4,893
Bank balance and cash	2,294
	7,187
Total assets of a disposal company classified as held for sale	1,068,187

Liabilities directly associated with assets classified as held for sale:

	HK\$'000
Non-current liabilities	
Deferred tax liabilities	13,398
Current liabilities	
Trade and other payables	25,330
Total liabilities directly associated with assets of a disposal company classified as held for sale	38,728

Note: The above amounts do not include amounts due to group companies, which were eliminated on consolidation and will be repaid by the Purchaser at completion.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19 BORROWINGS

	Group	
	2017 HK\$'000	2016 HK\$'000
Secured term loans	3,100,000	5,321,360
Unsecured term loans	7,355,060	5,000,000
Unsecured revolving loans	400,000	630,000
	10,855,060	10,951,360
Less: unamortised front end fees	(71,849)	(91,393)
	10,783,211	10,859,967
Carrying amount repayable:		
On demand or within one year	1,496,788	630,000
More than one year, but not more than two years	–	1,061,448
More than two years, but not more than five years	9,286,423	9,168,519
	10,783,211	10,859,967
Less: Amount due within one year shown under current liabilities	(1,496,788)	(630,000)
	9,286,423	10,229,967

- (i) On 13 March 2017, Fortune REIT through its wholly owned subsidiary, entered into a 5-year unsecured term loan facility agreement of HK\$1,200.0 million. This facility was used in part to refinance the existing loan facilities due in 2018 and the balance was used to finance the corporate funding requirement of the Group. On 29 September 2017, the secured revolving credit facilities of HK\$700.0 million entered in 2014 was voluntary cancelled. On 19 December 2017, the Group has entered into an uncommitted revolving credit facility agreement of HK\$500.0 million for the purpose of corporate funding requirement.

As described in Note 18, Fortune REIT entered into a share purchase agreement in relation to the disposal of all interest in Provident Square which has been pledged with an existing loan facilities originally due in 2019 amounting of HK\$1,100 million. Upon completion of the transaction, part of the sales proceeds would be used to repay the captioned loan as required by the facility agreement and thus the captioned loan will be liabilities repayable within one year and classified as current liabilities as at 31 December 2017.

As at 31 December 2017, total committed loan facilities amounted to HK\$11,155.1 million (2016: HK\$11,721.4 million), bear interest at HIBOR plus a margins ranging from 0.98% to 1.40% (2016: HIBOR plus a margins ranging from 1.14% to 1.48%). The committed loan facilities with aggregate amounts of, HK\$1,100.0 million, HK\$4,355.1 million, HK\$4,500.0 million and HK\$1,200.0 million will mature in 2018, 2020, 2021 and 2022 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19 BORROWINGS (Continued)

(i) (Continued)

The secured term loan facilities are secured by, inter alia, mortgages over certain investment properties of the Group and interests in certain subsidiaries of Fortune REIT as disclosed in Notes 13 and 14 respectively. In addition, the Trustee (in its capacity as Trustee of Fortune REIT) has provided guarantee for all the loan facilities.

(ii) During the year, the Group has paid front end fees of HK\$12.0 million (2016: HK\$77.0 million) to the banks to secure the loan facilities. The front end fees are amortised over the respective loan periods. The movements in the front end fees and accumulated amortisation are as follow:

Group		
	2017	2016
	HK\$'000	HK\$'000
At beginning of year	130,000	139,245
Addition	12,000	77,000
Reversal during the year	(25,912)	(86,245)
At end of year	116,088	130,000
Movement in accumulated amortisation:		
At beginning of year	(38,607)	(84,218)
Amortised during the year	(24,940)	(31,859)
Reversal during the year	19,308	77,470
At end of year	(44,239)	(38,607)
Net book values	71,849	91,393

(iii) The effective interest rates:

	Weighted average effective interest rate		Principal amount	
	2017	2016	2017	2016
	%	%	HK\$'000	HK\$'000
Interest bearing borrowing				
Fixed rate*	2.60	2.69	5,501,150	5,501,150
Variable rate	1.68	1.69	5,353,910	5,450,210
			10,855,060	10,951,360

* The effective interest rate had taken into account the effect of the interest rate swaps (including derivatives not under hedge accounting) which were entered into to swap a portion of the Group's borrowings from floating rate to fixed rate and therefore the loan is analysed as fixed rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20 DEFERRED TAX LIABILITIES

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The followings are the major component of deferred tax liabilities/(assets) recognised and movements therein during the year:

	Accelerated tax depreciation		Tax losses		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Group						
At beginning of year	430,169	398,234	(3,367)	(3,367)	426,802	394,867
Charged to profit or loss for the year	30,742	31,935	–	–	30,742	31,935
	460,911	430,169	(3,367)	(3,367)	457,544	426,802
Transfer to liabilities directly associated with assets of a disposal company classified as held for sale	(13,398)	–	–	–	(13,398)	–
At end of year	447,513	430,169	(3,367)	(3,367)	444,146	426,802

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21 TRADE AND OTHER PAYABLES

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
(a) Trade payables				
Tenants' deposits				
– Outside parties	495,950	471,912	–	–
– Related parties (Note 32)	15,184	16,587	–	–
Rental received in advance				
– Outside parties	27,247	23,458	–	–
	538,381	511,957	–	–
(b) Other payables				
Trustee's fee	2,232	2,122	2,232	2,122
Deposits receivable for assets of a disposal company classified as held for sale (Note 18)	200,000	–	–	–
Other expenses				
– Outside parties	120,053	127,667	3,423	3,474
– Related parties (Note 32)	55,719	60,660	–	–
– Manager (Note 32)	45,076	43,664	–	–
– Subsidiaries	–	–	4,726	4,818
Interest payable	3,875	3,249	–	–
Others	2,390	3,901	2,390	3,901
	429,345	241,263	12,771	14,315
Total	967,726	753,220	12,771	14,315

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\$308.7 million (2016: HK\$264.2 million) as at 31 December 2017.

Included in Fortune REIT's other payable balance are amount due to subsidiaries of HK\$4.7 million (2016: 4.8 million) which are unsecured, interest-free and repayable on demand.

Trade and other payable which are not denominated in the functional currency of the respective Group entities are as follows:

	Group and Fortune REIT	
	2017 HK\$'000	2016 HK\$'000
Denominated in:		
– Singapore dollars	1,636	1,005

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

22 UNITS IN ISSUE AND TO BE ISSUED

Before the amendment of Trust Deed on 26 March 2010, Fortune REIT has no contractual obligation to pay or declare distribution of which is entirely at the discretion of the Manager pursuant to the Trust Deed. Accordingly, the issued units were classified as equity in accordance with IAS.

As a consequence of the primary listing on the SEHK, Fortune REIT has to comply with the distribution requirements set in the REIT Code issued by the SFC. In accordance with the amended Trust Deed, Fortune REIT's current distribution policy provides the unitholders with a right to receive distribution which Fortune REIT has a contractual obligation to distribute to unitholders at the higher of Net Tax-Exempt Income or 90% of consolidated Net Profit After Tax (defined in Note (i) to the distribution statement).

Accordingly, the issued units as at 31 December 2017 and 2016 are compound instruments in accordance with IAS 32. The Manager considers the equity component of the issued units to be insignificant and that the net assets attributable to unitholders presented on the statements of financial position as at 31 December 2017 and 2016 mainly represents financial liabilities.

	Number of units	
	'000	HK\$'000
Balance as at 1 January 2016	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	9,052	81,296
Balance in issue as at 31 December 2016	1,898,951	7,852,328
Issue of new units during the year:		
As payment of Manager's base fee for the period from 1 October to 31 December 2016 (Note (i))	3,177	27,500
Balance as at 31 December 2016	1,902,128	7,879,828
Issue of new units during the year:		
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
New units to be issued:		
As payment of Manager's base fee for the period from 1 October to 31 December 2017 (Note (i))	3,072	29,348
Balance as at 31 December 2017	1,914,348	7,992,482

Note:

- (i) Manager's base fee payable to the Manager is in the form of units. On 2 January 2018, Fortune REIT issued 3,072,278 units at an issue price of HK\$9.553 per unit to the Manager as base fee for the period from 1 October 2017 to 31 December 2017. On 3 January 2017, Fortune REIT issued 3,177,375 units at an issue price of HK\$8.655 per unit to the Manager as base fee for the period from 1 October 2016 to 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23 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\$26,887.8 million (2016: HK\$24,544.9 million) and the total number of 1,914,348,385 (2016: 1,902,127,947) units in issue and to be issued, including the new units to be issued as payment of Manager's base fee.

24 NET CURRENT LIABILITIES

As at 31 December 2017, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,146.2 million (2016: HK\$1,212.1 million).

25 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 31 December 2017, the Group's total assets less current liabilities amounted to HK\$36,624.1 million (2016: HK\$35,206.6 million).

26 CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group and Fortune REIT manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to unitholders through the optimisation of debt and net assets attributable to unitholders, and to ensure that all other externally imposed capital requirements are complied with.

The capital structure of the Group consists of debts, which includes borrowings, cash and cash equivalents and net assets attributable to unitholders comprising issued and issuable units, reserves and retained profits. Fortune REIT and the Group are required to maintain the aggregate borrowing not exceeding 45% (2016: 45%) and 45% (2016: 45%) of the gross asset value of the Group in accordance with the CIS Code issued by MAS and the REIT Code issued by SFC, respectively. As at 31 December 2017, the Group has aggregate borrowings with principal amount of HK\$10,855 million (2016: HK\$10,951 million) and it represents 27% (2016: 29%) of the gross asset value of the Group.

The management's strategy remains unchanged from prior year. The Group and Fortune REIT are in compliance with externally imposed capital requirements as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

	Group		Fortune REIT	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Financial assets				
<i>Loans and receivables</i>				
Trade and other receivables	264,829	65,262	2,223	2,110
Bank balances and cash	516,036	585,217	485,638	481,665
	780,865	650,479	487,861	483,775
<i>Fair value</i>				
Derivative financial instruments – Not under designated hedge accounting	19,947	50,702	–	–
Financial liabilities				
<i>Amortised cost</i>				
Other payables	115,783	125,243	4,623	6,023
Distribution payable	483,436	465,183	483,436	465,183
Borrowings	10,783,211	10,859,967	–	–
	11,382,430	11,450,393	488,059	471,206
<i>Fair value</i>				
Derivative financial instruments – Not under designated hedge accounting	5,790	5,335	–	–

(b) Financial risk management objectives and policies

Details of the Group's and Fortune REIT's financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include interest rate risk, credit risk, foreign currency risk and liquidity risk.

The policies on how to mitigate these risks are set out below. There has been no change to the Group's exposure to these financial risks or manner in which it manages and measures the risk. The Manager manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Interest rate risk**

The Group's and Fortune REIT's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Where necessary, the Group adopts an appropriate hedging policy to minimise interest rate exposure. This may involve fixing certain portion of the interest payable on its underlying debt liabilities via financial derivatives or other suitable financial products.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the Group's exposure to interest rates for derivative and non-derivative instruments at the end of the reporting period and assumed the stipulated changes taking place at the beginning of last financial year and held constant throughout last financial period in the case of financial instruments that bear interest at floating rates. A range of 25 to 75 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit before tax for the year would decrease or increase accordingly. This is mainly attributable to the Group's exposure to interest rates on its floating rate borrowings which is not hedged. The following analysis shows the Group's sensitivity to interest rates exposure:

Increase in interest rates basis points by:

	Decrease in the Group's profit before taxation	
	2017	2016
	HK\$'000	HK\$'000
25 basis points	13,385	13,626
50 basis points	26,770	27,251
75 basis points	40,154	40,877

No interest rate sensitivity analysis in relation to time deposit of the Group and Fortune REIT as the Manager considered that the impact of interest rate risk on profit or loss for the year was insignificant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the property companies, as and when they fall due. The Group has adopted a policy of obtaining deposit to mitigate the risk of financial loss from default.

Trade receivable consists of rental revenue receivables from tenant or counterparty. The Manager monitors their balances on an ongoing basis. Credit evaluations are performed by the property manager on behalf of the Manager before lease agreements are entered into with tenants.

The Group and Fortune REIT do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk on liquid funds is limited because cash and fixed deposits are placed with reputable bank with high credit ratings assigned by international credit-rating agencies.

The credit risk on derivative financial instrument is limited because the counterparties are bank with high credit ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk of the Group and Fortune REIT is represented by the carrying value of each financial asset on the statements of financial position.

Foreign currency risk

The functional currency of Fortune REIT and its subsidiaries is Hong Kong dollars.

The net carrying amounts of monetary assets denominated in currencies other than their functional currency arise from Singapore dollars ("S\$") denominated bank balances and deposits, other receivables and other payables amounting to HK\$4.2 million (2016: HK\$3.3 million) as at 31 December 2017. The foreign currency risk is managed by the Manager on an ongoing basis as well as to minimising the bank balance in Singapore dollars.

If HK\$ were to strengthen against S\$ by 10% (2016: 10%), the Group's and Fortune REIT's profit before taxation for the year would decrease by HK\$0.4 million (2016: HK\$0.3 million).

Conversely, if the HK\$ were to weaken against S\$, there would be an equal and opposite effect on the Group's and Fortune REIT's profit before taxation for the year.

Liquidity risk

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate by the Manager to finance the Group's and Fortune REIT's operations. In addition, the Manager also monitors and observes the CIS Code and REIT Code concerning limits of total borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Liquidity risk (Continued)**

Taking into account the fair value of investment properties of HK\$38,812 million (of which HK\$1,061 million is included in assets of a disposal company classified as held for sale as disclosed in Note 18 to the financial statements), presently available banking facilities of HK\$800 million and internal financial resources of the Group, the Manager is of the opinion that 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.

Liquidity risk analysis

The following table details the Group's and Fortune REIT's remaining contractual maturity for its financial liabilities (other than issued and issuable units) based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Fortune REIT can be required to pay.

For derivative instruments settled on a net basis, undiscounted net cash outflows are presented. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date. The liquidity analysis for derivative financial instruments is prepared based on the contractual maturities as the management considers the contractual maturities are essential for an understanding of the timing of the cash flows of the derivatives.

The Group's derivative financial instruments are interest rate swaps and caps with notional amount totaling HK\$6,463 million (2016: HK\$7,299 million) as at 31 December 2017 with contracted net cash flows due within five years (2016: five years) from inception date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Liquidity risk (Continued)***Liquidity risk analysis (Continued)***Group**

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 2 years HK\$'000	Over 2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount as at 31 December 2017 HK\$'000
2017							
Non-derivative financial liabilities							
Tenants' deposits	–	67,912	134,501	170,139	138,582	511,134	511,134
Other payables	–	115,783	–	–	–	115,783	115,783
Bank borrowings	2.33	1,559,062	164,962	218,949	9,630,583	11,573,556	10,783,211
Distribution payable	–	483,436	–	–	–	483,436	483,436
Cash outflow		2,226,193	299,463	389,088	9,769,165	12,683,909	11,893,564
Derivative liabilities- net settlement							
Derivative financial instruments, cash outflow/(inflow)		2,527	6,780	2,299	(588)	11,018	5,790
2016							
Non-derivative financial liabilities							
Tenants' deposits	–	57,275	167,046	163,769	100,409	488,499	488,499
Other payables	–	125,243	–	–	–	125,243	125,243
Bank borrowings	1.97	681,952	157,068	1,269,179	9,601,004	11,709,203	10,859,967
Distribution payable	–	465,183	–	–	–	465,183	465,183
Cash outflow		1,329,653	324,114	1,432,948	9,701,413	12,788,128	11,938,892
Derivative liabilities- net settlement							
Derivative financial instruments, cash outflow/(inflow)		1,885	4,820	660	(388)	6,977	5,335

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Liquidity risk (Continued)***Liquidity risk analysis (Continued)***Fortune REIT**

	On demand or less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount as at 31 December 2017 HK\$'000
2017			
Other payables	4,623	4,623	4,623
Distribution payable	483,436	483,436	483,436
	488,059	488,059	488,059

	On demand or less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount as at 31 December 2016 HK\$'000
2016			
Other payables	6,023	6,023	6,023
Distribution payable	465,183	465,183	465,183
	471,206	471,206	471,206

(c) Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The long-term borrowings are floating rate loans based on market interest rates and hence their carrying values approximate their fair value.

The fair value of derivative instruments is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

28 OPERATING LEASE ARRANGEMENTS

	Group	
	2017	2016
	HK\$'000	HK\$'000
Minimum lease income under operating leases included in revenue	1,480,874	1,437,915

As at the end of the reporting period, the future minimum lease receipts under the committed rental of shopping mall premises were as follows:

	Outside parties		Related parties		Total	
	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,145,974	1,048,090	153,816	170,859	1,299,790	1,218,949
In the second to fifth year inclusive	946,507	705,672	90,712	154,343	1,037,219	860,015
Over five years	7,574	14,791	1,557	1,568	9,131	16,359
	2,100,055	1,768,553	246,085	326,770	2,346,140	2,095,323

The Group rents out its investment properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Group for its investment properties. Leases are negotiated for term ranging primarily from two to three years with monthly fixed rental, except for certain leases of which contingent rents are charged based on the percentage of sales mainly ranging from 1% to 30% (2016: 1% to 20%).

29 CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitments for upgrading investment properties which were authorised but not contracted for of HK\$261.9 million (2016: HK\$301.9 million) and contracted but not provided for of HK\$67.2 million (2016: HK\$97.4 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

30 MAJOR NON CASH TRANSACTIONS

During the year, Manager's base fee for the year ended 31 December 2017 of HK\$112.7 million were and will be settled by the issuance of 9,148,160 units and 3,072,278 units, respectively.

As described in Note 18, Fortune REIT entered into a share purchase agreement in relation to the disposal of all interest in Provident Square. Deposits with an aggregate amount HK\$200 million was paid by the purchaser to Fortune REIT's solicitors as stakeholders as part of the consideration. Such deposits will be remitted to the Fortune REIT upon the completion of the disposal.

In prior year, the Manager's base fee for the year ended 31 December 2016 of HK\$108.8 million were settled by the issuance of 12,228,644 units.

31 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings (Note 19) HK\$'000	Distribution payable HK\$'000	Interest payable (Note 21) HK\$'000	Total HK\$'000
At 1 January 2017	10,859,967	465,183	3,249	11,328,399
Financing cash flows	(108,300)	(952,788)	(235,918)	(1,297,006)
Finance cost	31,544	–	236,544	268,088
Distribution to unitholders	–	970,760	–	970,760
Other changes	–	281	–	281
At 31 December 2017	10,783,211	483,436	3,875	11,270,522

The reconciliation of liability arising from financing activity in relation to Fortune REIT is represented by distribution payable as shown in the table above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32 CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with connected and related parties.

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Rent and rental related income from			
ARA Asset Management (Fortune) Limited	(e)	844	815
A.S. Watson Retail (HK) Limited	(c)	36,009	34,032
BIGBOXX.com Limited	(c)	2,417	2,315
Cheung Kong Property Development Limited	(b)	43,099	44,176
Citybase Property Management Limited	(b)	2,311	3,857
Hang Seng Bank Limited	(d)	19,334	19,056
Harbour Plaza Resort City Limited	(b)	–	24
HSBC Life (International) Limited	(d)	–	32
Hutchison Global Communications Limited	(c)	1,165	1,488
Hutchison Telecommunication Services Limited	(c)	24	–
Hutchison International Limited	(c)	2,957	2,926
Hutchison Telephone Company Limited	(c)	9,382	9,181
Sino China Enterprises Limited	(b)	17	15
PARKnSHOP (HK) Limited	(c)	152,415	147,787
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)	(d)	9,856	13,855
Towerich Limited	(b)	68	64
Carpark lease agency fee for the operations for the Group’s carpark			
E-Park Parking Management Limited	(b)	8,856	8,106
Property management and project management fee			
Citybase Property Management Limited	(b)	1,017	991
Goodwell-Fortune Property Services Limited	(b)	46,441	45,194
Goodwell Property Management Limited	(b)	163	158
Guardian Property Management Limited	(f)	–	1,381
Whampoa Property Management Limited	(b)	836	901
Marketing services fee			
Goodwell-Fortune Property Services Limited	(b)	35,417	28,150

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Advertising and promotion expenses			
Metro Broadcast Corporation Limited	(c)	861	588
Trustee's fee			
HSBC Institutional Trust Services (Singapore) Limited		13,000	12,666
Manager's base fee			
ARA Asset Management (Fortune) Limited	(e)	112,655	108,796
Manager's performance fee			
ARA Asset Management (Fortune) Limited	(e)	45,076	43,664
Back office support service			
CK Asset Holdings Limited	(b)	19	–
Valuation and other fees			
Savills	(g)	–	483
Knight Frank	(g)	640	–

Balance as at year end with connected and related parties are as follows:

Trade receivables

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
A.S. Watson Retail (HK) Limited	(c)	1	62
Cheung Kong Property Development Limited	(b)	4,619	–
Hang Seng Bank Limited	(d)	–	49
HSBC	(d)	–	17
Hutchison Telephone Company Limited	(c)	50	2
PARKnSHOP (HK) Limited	(c)	210	249
		4,880	379

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For the year ended 31 December 2017

32 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**Other payables**

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
ARA Asset Management (Fortune) Limited	(e)	45,076	43,664
Citybase Property Management Limited	(b)	26,261	25,873
E-Park Parking Management Limited	(b)	765	1,362
Goodwell-Fortune Property Services Limited	(b)	10,249	12,046
Goodwell Property Management Limited	(b)	18,444	15,677
Whampoa Property Management Limited	(b)	–	5,702
		55,719	60,660
		100,795	104,324

Deposits placed with the Group for the lease of the Group's properties

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
ARA Asset Management (Fortune) Limited	(e)	240	211
A.S. Watson Retail (HK) Limited	(c)	2,472	1,647
Citybase Property Management Limited	(b)	599	1,608
Hang Seng Bank Limited	(d)	5,138	5,109
HSBC	(d)	2,132	2,112
Hutchison Global Communications Limited	(c)	–	385
Hutchison Telecommunication Services Limited	(c)	36	–
Hutchison Telephone Company Limited	(c)	1,531	1,590
PARKnSHOP (HK) Limited	(c)	3,013	3,902
Sino China Enterprises Limited	(b)	5	5
Towerich Limited	(b)	18	18
		15,184	16,587

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32 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**Liabilities directly associated with assets classified as held for sale**

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
A.S. Watson Retail (HK) Limited	(c)	2	–
Goodwell-Fortune Property Services Limited	(b)	122	–
Hutchison Global Communications Limited	(c)	–	–
Hutchison Telephone Company Limited	(c)	61	–
PARKnSHOP (HK) Limited	(c)	26	–
Whampoa Property Management Limited	(b)	5,572	–
		5,783	–

Notes:

- (a) Significant holder of Fortune REIT (as defined in the REIT Code) being Focus Eagle Investments Limited (the “**Significant Holder**”), which holds approximately 21% of the units of Fortune REIT as at 31 December 2017.
- (b) These companies are subsidiaries of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited) (“**CK Asset**”) and CK Asset is the holding company of the Significant Holder.
- (c) These companies are associated companies (as defined in the REIT code) of the Significant Holder.
- (d) These companies are fellow subsidiaries of the Trustee.
- (e) This company is the Manager of Fortune REIT.
- (f) This company is a fellow subsidiary of Savills.
- (g) Knight Frank and Savills were the principal valuers of investment properties for the year ended 31 December 2017 and 31 December 2016, respectively.

In addition, the Trustee (in its capacity as trustee of Fortune REIT) has provided guarantees for all loan facilities granted to the Group.

OTHER INFORMATION

MAJOR ESTATE AGENTS AND CONTRACTORS

Contractors	Nature of services	Value of contract HK\$ million	Percentage
Citybase Property Management Limited	Building Management	129.8	30.0%
Goodwell Property Management Limited	Building Management	101.1	23.4%
Goodwell-Fortune Property Services Limited	Property Management	99.4	23.0%
Schindler Lifts (Hong Kong) Limited	Projects and maintenance	18.0	4.2%
Whampoa Property Management Limited	Building Management	16.9	3.9%
Total		365.2	84.5%

FEE PAYABLE TO THE MANAGER

The Manager is committed to delivering value to the stakeholders of Fortune REIT, in addition to its key responsibilities of managing and maintaining the long term interests of all Unitholders.

The Manager is entitled to the following fees for the management of Fortune REIT, which cover an extensive scope of functions including but not limited to asset management (including asset enhancements), financing, investment management, marketing and investor relations:

- (1) a base fee of 0.3% per annum of the value of the properties of Fortune REIT (as defined under Clause 15.1.1 of the Trust Deed). The base fee is currently paid in the form of Units. The base fee, which is based on a fixed percentage of the value of the assets of Fortune REIT, commensurates with the complexity and efforts required of the Manager in managing Fortune REIT.
- (2) a performance fee equal to 3% per annum of the Net Property Income of Fortune REIT or any special purpose vehicles for each financial year (as defined under Clause 15.1.2 in the Trust Deed). The performance fee is paid in the form of cash. The performance fee methodology is reflective of the alignment of interests between the Manager and the Unitholders in incentivising the Manager to drive higher income yields for Fortune REIT. The Manager is incentivised to review the growth potential of the assets in the portfolio, and improve the long-term performance of such assets on a sustainable basis (as opposed to taking excessive short-term risks) through proactive management including undertaking effective leasing strategies and asset enhancement/repositioning initiatives and achieving cost efficiencies.

OTHER INFORMATION

In addition, the Manager is entitled to an acquisition fee¹ which is paid in the form of cash or Units as the Manager may elect after the completion of an acquisition. The Manager is also entitled to a divestment fee¹ which is paid in cash after the completion of a divestment. Details of the fee structure of the acquisition fee and divestment fee are set out in Note 1 to the Financial Statements herein (and Clause 15.2.1 of the Trust Deed). The acquisition fee and divestment fee payable to the Manager are to recognise the Manager's efforts in actively seeking potential opportunities to acquire new properties and/or in unlocking the underlying value of existing properties within its asset portfolio through divestments to optimise returns to the Unitholders. The Manager provides these services over and above the provision of ongoing management services with an aim to generate long term benefits for the Unitholders. In relation to the disposal of Provident Square, the Manager is entitled to receive (pursuant to the Trust Deed) a divestment fee in cash of 0.5% of the acquisition value of HK\$2.0 billion as soon as practicable after completion.

Note:

1. In the case of an interested party transaction, the fee is paid in the form of Units at the prevailing market price and such Units should not be sold within one year from their date of issuance as stipulated in the CIS Code.

PERFORMANCE TABLE

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Net assets attributable to unitholders ¹ (HK\$'000)	26,887,767	24,544,883	24,106,324	22,375,537	19,109,327
Net asset value per unit (HK\$)	14.05	12.90	12.76	11.93	10.26
The highest traded price during the year (HK\$)	9.82	10.18	9.05	7.84	8.61
The highest premium of the trade price to net asset value ²	N.A.	N.A.	N.A.	N.A.	N.A.
The lowest traded price during the year (HK\$)	8.52	7.30	7.25	5.60	5.89
The highest discount of the trade price to net asset value	39.4%	43.4%	43.2%	53.1%	42.6%
The net yield per unit ³	5.3%	5.5%	5.9%	5.3%	5.8%

Notes:

1. The total operating expenses of Fortune REIT, including all fees and charges paid to the Manager and interested parties (as defined under Appendix 6 – Property Funds) for the year ended 31 December 2017 was HK\$699.1 million or 2.6% of the net assets attributable to unitholders as at 31 December 2017.
2. The highest traded price is lower than the net asset value per unit as at the end of the period. Accordingly, premium of the trade price to net asset value per unit had not been recorded.
3. The net yield per unit is calculated based on the distribution per unit for each of reporting period over the last traded price for the respective reporting period.

CORPORATE INFORMATION

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CHIU Kwok Hung, Justin, *Non-Executive Director*
LIM Hwee Chiang, *Non-Executive Director*
YEUNG, Eirene, *Non-Executive Director*
MA Lai Chee, Gerald, *Non-Executive Director*
CHIU Yu, Justina, *Chief Executive Officer and Executive Director*
CHENG Ai Ping, *Independent Non-Executive Director*
YEO Annie (alias YEO May Ann), *Independent Non-Executive Director*
KOH Poh Wah, *Independent Non-Executive Director*

COMPANY SECRETARY OF THE MANAGER

YEOH Kar Choo, Sharon

TRUSTEE

HSBC Institutional Trust Services (Singapore) Limited

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