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Prosperity Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

INTERIM RESULTS ANNOUNCEMENT FOR 2014

Prosperity Real Estate Investment Trust (“Prosperity REIT”) is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011 (collectively, the “Trust Deed”) between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the “REIT Manager”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector real estate investment trust (“REIT”) to list on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 December 2005 (the “Listing Date”). Prosperity REIT owns a diverse portfolio of eight high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2014 (the “Reporting Period”) together with comparative figures for the corresponding period in 2013 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2014</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2013</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0815	HK\$0.0744	9.5%

<u>Key financial figures</u>	<u>As at 30 Jun 2014</u> <u>(unaudited)</u>	<u>As at 31 Dec 2013</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$4.56	HK\$4.57	(0.2%)
Property valuation	HK\$9,609 million	HK\$8,518 million	12.8%
Gearing ratio *	28.9%	20.9%	8.0% ¹

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2014</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2013</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$197.8 million	HK\$167.1 million	18.4%
Net property income	HK\$155.2 million	HK\$130.4 million	19.0%
Average effective unit rent	HK\$20.23 per sq. ft.	HK\$18.54 per sq. ft.	9.1%
Occupancy rate <i>(as at 30 June)</i>	97.8%	98.1%	(0.3%) ¹
Rental reversion rate	28.6%	37.8%	(9.2%) ¹
Cost-to-revenue ratio	21.6%	22.0%	(0.4%) ¹

* This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

¹ Absolute change

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 30 June 2014, Prosperity REIT owned a diverse portfolio of eight properties (including the newly acquired 9 Chong Yip Street) in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. As at 30 June 2014, the total gross rentable area was 1,352,174 sq. ft., with a total of 498 car park spaces.

Information about our properties, as at 30 June 2014, was as follows:

	Location	Gross rentable area <i>Sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ Million</i>	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	2,955	99.5%
Prosperity Millennia Plaza	North Point	217,955	43	1,732	95.3%
9 Chong Yip Street	Kwun Tong	136,595	68	1,064	95.8%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	461	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,404	96.0%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	913	98.5%
Prosperity Center (portion)	Kwun Tong	149,253	105	789	99.3%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	291	100.0%
Total		<u>1,352,174</u>	<u>498</u>	<u>9,609</u>	<u>97.8%</u>

While slowdown in the U.S. and China's economic growth in the early part of the year had weighed on the global economy, a degree of optimism emerged towards the end of the Reporting Period, with indications for an improving U.S. job market as well as accelerating China manufacturing activities.

In Hong Kong, PRC companies, especially hedge funds and private equity firms, were notably active in the leasing market in pursuit of expanding international presence through Hong Kong, resulting in steady rents in the central business district ("CBD").

As for Kowloon East, increasing units from strata-title landlords were released to the market at more competitive rents, offering more alternatives to tenants. Notwithstanding an increasingly competitive market condition, Prosperity REIT achieved a strong rental reversion rate of 28.6%, complemented with a stable occupancy rate of 97.8% during the Reporting Period. The average effective unit rent of Prosperity REIT's portfolio also recorded a solid growth of 9.1% to HK\$20.23 per sq. ft. during the Reporting Period. This resilient performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services, which enabled us to stand out from keen competitions and attract quality tenants.

After the integration of 9 Chong Yip Street into Prosperity REIT's portfolio early this year, large-scale asset enhancement works had commenced in March. Coupled with the asset enhancement works, the REIT Manager continued to recruit new tenants proactively. As a result, the occupancy rate stood stably at 95.8% as at 30 June 2014.

Meanwhile, the REIT Manager has implemented effective measures to increase its operational efficiency, enabling Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 21.6% for the Reporting Period.

As at 30 June 2014, Prosperity REIT's gearing ratio remained at a healthy level of 28.9%, providing us with a strong balance sheet to take advantage of future growth opportunities. The increase of the gearing ratio from 20.9% as at 31 December 2013 was due to the drawdown of existing revolving credit facility and new loan facilities to finance the acquisition of 9 Chong Yip Street.

Investment Review

Prosperity REIT successfully completed its first major acquisition in January 2014. The acquisition of 9 Chong Yip Street expanded Prosperity REIT's portfolio gross rentable area by 11.2% to 1,352,174 sq. ft., and was the major contributing factor to the 12.8% increase in the portfolio valuation of HK\$9,609 million. As the acquisition was completed on 22 January 2014, 9 Chong Yip Street provided a partial contribution during the Reporting Period and accounted for 7.9% of the portfolio revenue during the Reporting Period. Funded entirely by debt and achieving economies of scale in operation, this acquisition has generated additional distribution for Prosperity REIT's unitholders.

Furthermore, the strategic location of 9 Chong Yip Street strengthened Prosperity REIT's foothold in Kowloon East, a maturing decentralized business district with bright growth prospects. With the acquisition, 32.8% of Prosperity REIT's net property income came from this burgeoning district during the Reporting Period.

The REIT Manager will continue to seek out potential acquisition opportunities. We will assess every acquisition target prudently in accordance with our established investment criteria, including the enhancement potential of asset value, organic growth prospects and synergies with existing properties in the portfolio.

Asset Enhancement

Asset enhancement has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competitions, upgrading our properties is a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, a number of asset enhancement works were carried out at 9 Chong Yip Street and Prosperity Place.

9 Chong Yip Street

9 Chong Yip Street is located in the Kwun Tong district of Kowloon East, which is a maturing decentralized business district with many new high-specifications office developments.

In order to fully unlock its potential and reflect its strategic location in Kowloon East, a series of asset enhancement works are ongoing, including the renovation of the lower portion of the external façade, ground floor lobby, passenger lift lobbies, common corridors and common washrooms on typical floors. A roof garden is now under planning. All of these asset enhancement works are expected to be completed by the first quarter of 2015.

Prosperity Place

Prosperity Place is located in Kwun Tong, and was converted from industrial/office use to commercial use in the fourth quarter of 2012.

The previous asset enhancement works at the passenger lift lobbies and common corridors on selected floors have attracted commercial tenants to move into Prosperity Place. Following this success, we are now renovating an additional number of lower floors to create a commercial outlook and widen our tenant base.

In view of the higher electricity tariffs and longer operating hours of the commercial tenants, we have replaced an existing chiller plant with a more energy-efficient model in the first quarter of 2014, enabling up to about 15% in energy cost savings for air conditioning provision.

Outlook

The continued recovery of the U.S. economy and the roll-out of supportive policies from the Chinese government offer positive signs for the global economy for the remainder of 2014. The long-term prospects of the decentralized commercial property market in Hong Kong remain intact. In particular, Kowloon East's rising profile as an upcoming second central business district of Hong Kong ("CBD2") is reinforced by the heavy capital investments committed by multinational companies and investment funds.

Prosperity REIT, being a long-term player in Kowloon East, has expanded its presence in the district through the acquisition of 9 Chong Yip Street on a timely basis, and is well-positioned to gain further benefits from the district's transformation. With the professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, we will continue to implement effective asset management strategies that successfully drive rental income. Meanwhile, a high level of financial flexibility will be maintained so as to ensure stable and sustainable returns to Prosperity REIT's unitholders.

Financial Review

The revenue and net property income of each property in Prosperity REIT's portfolio for the Reporting Period are summarized as follows:

	Turnover <i>HK\$'000</i>	Rental related income <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Net property income <i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	50,121	10,150	60,271	49,466
Prosperity Millennia Plaza	32,718	5,975	38,693	31,116
9 Chong Yip Street	14,145	1,478	15,623	12,151
Commercial				
Harbourfront Landmark (portion)	8,757	2,942	11,699	9,345
Prosperity Place	26,905	358	27,263	20,865
Industrial/Office				
Trendy Centre	17,681	3,273	20,954	14,382
Prosperity Center (portion)	15,013	1,585	16,598	12,812
Industrial				
New Treasure Centre (portion)	5,817	875	6,692	5,019
Total	171,157	26,636	197,793	155,156

Revenue

During the Reporting Period, revenue improved to HK\$197.8 million, being HK\$30.7 million or 18.4% higher than the last corresponding half year.

The revenue comprised HK\$171.2 million of rental and car park income, plus HK\$26.6 million of rental related income. Rental and car park income was HK\$29.2 million or 20.6% higher than the last corresponding half year.

Net Property Income

For the Reporting Period, the net property income was HK\$155.2 million, exceeding that of the last corresponding half year by HK\$24.8 million or 19.0%. The growth was mainly attributable to the additional net property income of HK\$12.2 million from 9 Chong Yip Street acquired in January 2014, as well as the strong rental reversion rate of 28.6% for the entire portfolio. The cost-to-revenue ratio was 21.6%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$115.3 million, representing a DPU of HK\$0.0815. This represents an annualized distribution yield of 6.7%². The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$6.9 million (equivalent to HK\$0.0049 per unit), which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the Reporting Period.

Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

Liquidity and Financing

As at 30 June 2014, Prosperity REIT had facilities in aggregate of HK\$2,984 million, comprising:

- (i) A HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015 (the "2010 Facilities"); and
- (ii) A HK\$404 million secured term loan for a term of five years expiring on 16 January 2019 and a HK\$380 million unsecured term loan for a term of three years expiring on 16 January 2017 (the "2014 Facilities").

In relation to the 2010 Facilities, the term loan facility was fully drawn on 16 December 2010 and a revolving credit facility of HK\$245 million was drawn as at 30 June 2014. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

The 2014 Facilities were fully drawn on 22 January 2014 to partly finance the acquisition of 9 Chong Yip Street.

² Based on Prosperity REIT's closing unit price of HK\$2.42 as at 30 June 2014

The 2010 Facilities and 2014 Facilities bear interest at a variable rate. In order to hedge against interest rate fluctuations, Prosperity REIT through its wholly-owned finance company entered into a plain vanilla interest rate swap agreement to fix the interest rate of 80% of the term loan under the 2010 Facilities, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 28.9% as at 30 June 2014, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 33.7% as at 30 June 2014.

Taking into account the fair value of investment properties, currently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT has sufficient financial resources to satisfy its commitments and working capital requirements.

Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$62.2 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	8,518,000	7,952,000
Additional expenditure	14,718	15,409
Acquisition	1,014,054	-
Change in fair value of investment properties	62,228	550,591
Fair value at the end of the period/year	<u>9,609,000</u>	<u>8,518,000</u>

Charges on Assets

As at 30 June 2014, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$9,535 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and its subsidiaries have provided guarantees for the 2010 Facilities and 2014 Facilities.

EMPLOYEES

Prosperity REIT is externally managed by the REIT Manager and does not employ any staff.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 15,574,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee and acquisition fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “Compliance Manual”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. During the Reporting Period, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Thursday, 28 August 2014 to Tuesday, 2 September 2014, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 27 August 2014. The payment date of interim distribution will be on Monday, 8 September 2014.

REVIEW OF INTERIM RESULTS

The interim results of Prosperity REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT’s auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2014.

ISSUANCE OF INTERIM REPORT

The Interim Report of Prosperity REIT for the Reporting Period will be published on the websites of the Stock Exchange and Prosperity REIT and will be dispatched or sent to unitholders on or before Sunday, 31 August 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	<i>Notes</i>	<i>Six months ended 30 June</i>	
		<i>2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>2013</i> <i>HK\$'000</i> <i>(unaudited)</i>
Revenue	3	197,793	167,098
Property management fees		(4,649)	(3,851)
Property operating expenses		(37,988)	(32,829)
Total property operating expenses		(42,637)	(36,680)
Net property income		155,156	130,418
Manager's fee		(23,688)	(20,167)
Trust and other expenses	5	(17,830)	(3,693)
Change in fair value of investment properties		62,228	476,123
Finance costs	6	(29,637)	(20,840)
Profit before taxation and transactions with unitholders		146,229	561,841
Taxation	7	(16,183)	(13,592)
Profit for the period, before transactions with unitholders		130,046	548,249
Distribution to unitholders		(115,302)	(103,568)
Profit for the period, after transactions with unitholders		14,744	444,681
Other comprehensive income – item that may be subsequently classified to profit or loss:			
Change in fair value of cash flow hedge		4,225	11,969
Total comprehensive income for the period, after transactions with unitholders		18,969	456,650
Income available for distribution to unitholders		115,302	103,568
Basic earnings per unit (HK\$)	8	0.09	0.40

DISTRIBUTION STATEMENT

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Profit for the period, before transactions with unitholders	130,046	548,249
Adjustments:		
Manager's fee	23,156	20,132
Acquisition fee	10,100	-
Change in fair value of investment properties	(62,228)	(476,123)
Finance costs	6,906	5,021
Deferred tax	7,322	6,289
Income available for distribution (note (i))	115,302	103,568
Distribution to unitholders:		
For the six months ended 30 June	115,302	103,568
Distribution per unit (HK\$) (note (ii))	0.0815	0.0744

Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the stated policy of the REIT Manager to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries (the "Group") for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the relevant financial period.

These Adjustments for the half year comprise:

- (a) manager's fee paid and payable in units of HK\$23,156,000 (2013: HK\$20,132,000) out of the total manager's fee of HK\$23,688,000 (2013: HK\$20,167,000) (the difference of HK\$532,000 (2013: HK\$35,000) is paid in cash), and acquisition fee paid in units of HK\$10,100,000 (2013: Nil);
- (b) change in fair value of investment properties of HK\$62,228,000 (2013: HK\$476,123,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$29,637,000 (2013: HK\$20,840,000) less cash finance cost of HK\$22,731,000 (2013: HK\$15,819,000); and
- (d) deferred tax provision of HK\$7,322,000 (2013: HK\$6,289,000).
- (ii) The DPU of HK\$0.0815 (2013: HK\$0.0744) is calculated based on Prosperity REIT's income available for distribution of HK\$115,302,000 (2013: HK\$103,568,000) over 1,414,948,774 units (2013: 1,391,683,715 units), representing units in issue as at 30 June 2014 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of the relevant distribution period.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 Jun 2014 HK\$'000 (unaudited)	31 Dec 2013 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		9,609,000	8,518,000
Current assets			
Trade and other receivables	9	12,574	8,676
Bank balances and cash		57,196	58,096
Total current assets		69,770	66,772
Total assets		9,678,770	8,584,772
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		-	17,024
Term loans	11	2,528,795	1,753,549
Deferred tax liabilities		152,554	145,232
Total non-current liabilities, excluding net assets attributable to unitholders		2,681,349	1,915,805
Current liabilities			
Trade and other payables	10	178,539	154,062
Amounts due to related companies		8,916	8,778
Derivative financial instruments		12,799	-
Secured revolving loan	11	245,000	25,000
Provision for taxation		12,332	3,591
Manager's fee payable		11,924	10,646
Distribution payable		115,302	105,488
Total current liabilities		584,812	307,565
Total liabilities, excluding net assets attributable to unitholders		3,266,161	2,223,370
Net assets attributable to unitholders		6,412,609	6,361,402
Units in issue ('000)	12	1,410,409	1,396,178
Net asset value per unit (HK\$) attributable to unitholders	13	4.56	4.57

Notes

(1) Principal Accounting Policies:

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

The accounting policies used in these condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013 except as described below.

In the current period, the Group has applied the following amendments and interpretations to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the amendments and interpretations to the HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior years and/or on the disclosures set out in these financial statements.

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
HKFRS 9	Financial Instruments ²

HKFRS 14

Regulatory Deferral Accounts⁴

HKFRS 15

Revenue from Contracts with Customers⁶

¹ Effective for annual periods beginning on or after 1 July 2014

² Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

³ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁴ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and was further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 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 income⁶, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair

value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, 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 effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The REIT Manager anticipates that the adoption of HKFRS 9 in the future may not have significant impact on amounts reported in respect of the financial assets and financial liabilities. However, it is not practicable to provide a definite conclusion on that effect until a detailed review has been completed.

(2) Basis of preparation:

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

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

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	159,638	132,025
Car park income	11,519	9,911
	<hr/>	<hr/>
	171,157	141,936
Rental related income	26,636	25,162
	<hr/>	<hr/>
	197,793	167,098
	<hr/>	<hr/>

(4) Segment information:

Prosperity REIT is currently investing in eight office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street (acquired on 22 January 2014), portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

Six months ended 30 June 2014 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue in Hong Kong	60,271	38,693	15,623	11,699	27,263	20,954	16,598	6,692	197,793
Segment profit	49,466	31,116	12,151	9,345	20,865	14,382	12,812	5,019	155,156
Manager's fee									(23,688)
Trust and other expenses									(17,830)
Change in fair value of investment properties									62,228
Finance costs									(29,637)
Profit before taxation and transactions with unitholders									<hr/> <u>146,229</u>

Six months ended 30 June 2013 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue in Hong Kong	55,254	35,594	11,433	23,576	19,547	15,414	6,280	167,098
Segment profit	43,370	28,651	9,165	17,609	15,185	11,664	4,774	130,418
Manager's fee								(20,167)
Trust and other expenses								(3,693)
Change in fair value of investment properties								476,123
Finance costs								(20,840)
Profit before taxation and transactions with unitholders								<u>561,841</u>

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Acquisition expenses	3,744	-
Acquisition fee (paid in units)	10,100	-
Audit fee	131	106
Trustee's fee	1,407	1,199
Bank charges	480	554
Legal and professional fees	148	125
Registrar fee	300	300
Back-office support service fee	37	46
Public relations-related expenses	190	291
Trust administrative expenses	1,293	1,072
	<u>17,830</u>	<u>3,693</u>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Secured term loans	17,700	14,092
Unsecured term loan	4,000	-
Equalisation of interest expense through cash flow hedge	6,722	6,649
	<hr/>	<hr/>
	28,422	20,741
Secured revolving loan	1,215	99
	<hr/>	<hr/>
	29,637	20,840
	<hr/>	<hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	8,861	7,303
Deferred tax	7,322	6,289
	<hr/>	<hr/>
	16,183	13,592
	<hr/>	<hr/>

The estimated tax rate used is 16.5% for the periods under review. No provision for Hong Kong Profits Tax is required for certain subsidiaries as these subsidiaries did not have any assessable profits for the period or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences relating to accelerated tax depreciation and tax losses using the estimated tax rate. The investment property is not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

(8) Basic earnings per unit:

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$130,046,000 (2013: HK\$548,249,000) by the weighted average of 1,407,199,843 (2013: 1,387,535,547) units in issue during the period, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution period.

(9) Trade and other receivables:

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	511	752
Less: allowance for doubtful debts	(153)	(119)
	<hr/> 358	<hr/> 633
Deposits, prepayments and other receivables	12,216	8,043
	<hr/> 12,574	<hr/> 8,676

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

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	77	338
2 – 3 months	209	295
Over 3 months	72	-
	<hr/> 358	<hr/> 633

(10) Trade and other payables:

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,333	914
Tenants' deposits		
- Outside parties	126,072	111,092
- Related parties	529	425
Rental received in advance		
- Outside parties	3,254	2,555
Other payables	46,351	39,076
	<hr/> 178,539	<hr/> 154,062

Ageing analysis of the Group's trade payables presented based on the invoice date at the end of the Reporting Period is as follows:

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	840	327
2 – 3 months	1,493	376
Over 3 months	-	211
	<hr/> 2,333	<hr/> 914

Tenants' deposits represent the 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 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the Reporting Period based on the lease terms amounted to HK\$81,231,000 as at 30 June 2014 (31 December 2013: HK\$71,636,000).

(11) Borrowings:

	<i>30 Jun 2014</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2013</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loans	2,174,000	1,770,000
Unsecured term loan	380,000	-
Bank facility origination fees	(25,205)	(16,451)
	<u>2,528,795</u>	<u>1,753,549</u>
Secured revolving loan	245,000	25,000
	<u>2,773,795</u>	<u>1,778,549</u>
Carrying amount repayable:		
Within one year	245,000	25,000
Within a period of more than one year but not exceeding two years	1,758,570	-
Within a period of more than two years but not exceeding five years	770,225	1,753,549
	<u>2,773,795</u>	<u>1,778,549</u>

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2013	1,379,867,101	2,894,125
Payment of Manager's base fee and variable fee through issuance of new units during the year	16,311,096	40,512
Balance as at 31 December 2013	1,396,178,197	2,934,637
Payment of acquisition fee through issuance of new units during the period	4,431,768	10,100
Payment of Manager's base fee and variable fee through issuance of new units during the period	9,798,670	22,138
Balance as at 30 June 2014	<u>1,410,408,635</u>	<u>2,966,875</u>

- (13) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$12,799,000 (31 December 2013: HK\$17,024,000), and the total number of 1,410,408,635 units in issue as at 30 June 2014 (31 December 2013: 1,396,178,197 units).
- (14) At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$515,042,000 (31 December 2013: HK\$240,793,000) and the Group's total assets less current liabilities amounted to HK\$9,093,958,000 (31 December 2013: HK\$8,277,207,000).
- (15) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT's auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 14 August 2014

The directors of the REIT Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Wong Lai Hung as Executive Director; Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam as Independent Non-executive Directors.