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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

2020 INTERIM RESULTS ANNOUNCEMENT

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, varied and supplemented from time to time (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 (the “**Trustee**”). 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 currently owns a diverse portfolio of seven 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 2020 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2019 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2020</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2019</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0899	HK\$0.0933	(3.6%)

<u>Key financial figures</u>	<u>As at 30 Jun 2020</u> <u>(unaudited)</u>	<u>As at 31 Dec 2019</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$5.28	HK\$5.75	(8.2%)
Property valuation	HK\$10,571 million	HK\$11,126 million	(5.0%)
Gearing ratio¹	21.4%	20.3%	1.1% ²

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2020</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2019</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$228.7 million	HK\$230.2 million	(0.7%)
Net property income	HK\$181.1 million	HK\$183.7 million	(1.4%)
Average effective unit rent	HK\$25.10 per sq. ft.	HK\$25.06 per sq. ft.	0.2%
Occupancy rate <i>(as at 30 June)</i>	96.8%	97.4%	(0.6%) ²
Cost-to-revenue ratio	20.8%	20.2%	0.6% ²

¹ This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

² Absolute change.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 30 June 2020, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 30 June 2020, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2020, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	3,220	98.3%
Prosperity Millennia Plaza	North Point	217,955	43	2,210	95.7%
9 Chong Yip Street	Kwun Tong	136,595	68	1,090	100.0%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,756	95.9%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,070	97.3%
Prosperity Center (portion)	Kwun Tong	149,253	105	889	94.3%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	336	95.8%
Total		1,275,153	498	10,571	96.8%

During the Reporting Period, global economy has been affected gravely due to the outbreak of COVID-19. Many major international cities had executed lockdown policy, economic activities between nations were virtually shut down for months.

In US, GDP shrank by 9.5% year-on-year (“YoY”) in 2Q 2020. The Fed made the most substantial rate cut since 2008, from 1.75% in January 2020 down to 0.25% in March 2020. In China, after containing the outbreak of COVID-19 with a total of around 85,000 cases, some economic indicators showed signs of economic recovery in 2Q 2020.

Under the backdrop of local social incident and COVID-19 outbreak, Hong Kong economy has suffered its worst in the last three decades. The GDP had shrunk for 5 consecutive quarters, recording -9.0% YoY in 2Q 2020. In light of uncertain business outlook due to the resurgence of the pandemic, increasing geopolitical tensions and trade protectionism, office tenants were cautious in lease renewal. With some corporate tenants exercised work from home policy, tenants looked for ways to downsize in order to save costs. Core business districts such as Central and Admiralty were more impacted. In June, with a sign of recovery, companies in some sectors resumed activities and leased new spaces either for relocation or downsizing to non-core business districts at more affordable rents. Leasing momentum in Kowloon, in particular Kowloon East where Prosperity REIT is strategically located, started to pick up at the end of the Reporting Period, albeit at a lower rent level.

During this unprecedented period, relief measures including deferred payments, purchasing coupons/services from tenants were granted on case-by-case basis in view of the challenging business environment.

During the Reporting Period, while the occupancy rate was stable at 96.8% and the average effective unit rent of the portfolio slightly increased to HK\$25.10 per sq. ft., Prosperity REIT registered negative rental reversion. Our proactive and flexible leasing strategies, premium quality of our properties, as well as our attentive property management services helped to mitigate the adverse impact brought by market adversity.

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 20.8% for the Reporting Period.

As at 30 June 2020, Prosperity REIT's gearing ratio remained at a healthy level of 21.4% (31 December 2019: 20.3%), providing us with a strong balance sheet to meet with economic volatility and to take advantage of future growth opportunities.

Investment Review

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 is a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties is another way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, an asset enhancement work was carried out at Prosperity Millennia Plaza.

Prosperity Millennia Plaza

Prosperity Millennia Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building is a mere two minutes away from the Quarry Bay MTR Station by foot and two minutes from the Eastern Harbour Crossing Tunnel by car. In order to increase the marketing competitiveness among comparable buildings in the surrounding and fully reflect the strategic location of the building, the Ground Floor entrance lobby area has been renovated with modernized and high-class office building design.

Outlook

In the first half of the year, the COVID-19 pandemic has severely hit the global economy dampening business activities of all sectors. All countries are working on containing the spread of the virus and rolling out measures to stabilize their economies. According to the estimate of the International Monetary Fund (IMF), the global economic growth is projected at -4.9% this year, and the recovery is projected to be more gradual than the previous forecast.

Although the US rolled out fiscal stimulus plan and the Fed committed to maintain the interest rate at 0 - 0.25% to provide liquidity in the capital market, global markets are expected to be volatile in the near term resulted from the pandemic and geopolitical uncertainties between US and China.

In China, the COVID-19 lockdowns are moderately re-opened with the economy on a recovery pace. The central government continues to prioritize employment support and fiscal measures to stimulate the local consumption recovery.

In Hong Kong, the unemployment rate reached 6.2% in June which is the historic high in more than 15 years due to the mandatory orders imposed on various retail trades attributing to the suspension of business operation in a wide scale. US's revocation of Hong Kong trade privileges could potentially create additional turmoil in the business environment and MNC's confidence in Hong Kong. Hong Kong will continue to face challenges from the resurgence of the pandemic and the geopolitical tensions for the remainder of the year. Yet, with the different phase of the business and employment stimulus measures implemented by government, results are anticipated to reflect in the second half of the year.

Prosperity REIT has demonstrated the ability to capture market opportunities and to effectively manage the operation throughout different economic cycles. While the uncertainty by COVID-19 has prolonged effects on our business, we will continue to implement effective asset management strategies under the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT.

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	57,286	12,013	69,299	57,008
Prosperity Millennia Plaza	41,011	7,881	48,892	40,782
9 Chong Yip Street	17,629	2,382	20,011	15,589
Commercial				
Prosperity Place	33,828	1,820	35,648	26,311
Industrial/Office				
Trendy Centre	22,465	3,933	26,398	19,946
Prosperity Center (portion)	17,978	1,771	19,749	14,956
Industrial				
New Treasure Centre (portion)	7,609	1,125	8,734	6,498
Total	197,806	30,925	228,731	181,090

Revenue

During the Reporting Period, revenue decreased to HK\$228.7 million, being HK\$1.5 million or 0.7% lower than the last corresponding half year. The decrease was mainly due to the adverse market conditions and impact from COVID-19 since the second quarter.

Net Property Income

For the Reporting Period, the net property income was HK\$181.1 million, being HK\$2.6 million or 1.4% lower than the last corresponding half year mainly as a result of the decrease in revenue. The cost-to-revenue ratio was 20.8%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$136.5 million, representing a DPU of HK\$0.0899. This represents an annualized distribution yield of 7.8%³. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT

³ Based on Prosperity REIT's closing unit price of HK\$2.31 as at 30 June 2020.

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\$4.0 million (equivalent to HK\$0.0026 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 2020, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

- (i) A term loan and revolving credit facility of up to an aggregate principal amount of HK\$1,970 million (the “**HK\$1,970 Million Facilities**”) comprising a HK\$1,540 million unsecured term loan facility and a HK\$430 million unsecured revolving credit facility, which bear interest at a margin of 0.82% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 30 November 2017, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the “**HK\$800 Million Facility**”).

In relation to the HK\$1,970 Million Facilities, the term loan facility of HK\$1,540 million was fully drawn on 30 November 2017. None of the revolving credit facility was drawn as at 30 June 2020.

The HK\$800 Million Facility was fully drawn on 31 August 2016.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2020, the interest costs for approximately 70% (31 December 2019: 70%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 21.4% as at 30 June 2020 (31 December 2019: 20.3%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 27.0% as at 30 June 2020 (31 December 2019: 25.2%).

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 loss of HK\$557.4 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 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	11,126,000	10,990,000
Additional expenditure	2,439	7,888
Change in fair value of investment properties	(557,439)	128,112
Fair value at the end of the period/year	<u>10,571,000</u>	<u>11,126,000</u>

Charges on Assets

As at 30 June 2020, all bank loan facilities of Prosperity REIT are unsecured. None of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities and HK\$800 Million Facility.

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 824,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management 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 the 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 Monday, 31 August 2020 to Tuesday, 1 September 2020, 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 Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 28 August 2020. The payment date of interim distribution will be on Wednesday, 9 September 2020.

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 external 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 2020.

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 Monday, 31 August 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		<i>Six months ended 30 June</i>	
		<i>2020</i>	<i>2019</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	228,731	230,195
Property management fees		(5,575)	(5,628)
Property operating expenses		(42,066)	(40,911)
Total property operating expenses		(47,641)	(46,539)
Net property income		181,090	183,656
Interest income		3,470	3,062
Manager's fee		(27,070)	(27,429)
Trust and other expenses	5	(4,288)	(4,291)
Change in fair value of investment properties		(557,439)	116,320
Finance costs	6	(112,858)	(53,009)
(Loss)/Profit before taxation and transactions with unitholders		(517,095)	218,309
Taxation	7	(20,071)	(20,078)
(Loss)/Profit for the period, before transactions with unitholders		(537,166)	198,231
Distribution to unitholders		(136,513)	(139,770)
(Loss)/Profit for the period, after transactions with unitholders		(673,679)	58,461
Total comprehensive (expense)/income for the period, after transactions with unitholders		(673,679)	58,461
Income available for distribution to unitholders		136,513	139,770
Basic (loss)/earning per unit (HK\$)	8	(0.36)	0.13

DISTRIBUTION STATEMENT

For the six months ended 30 June 2020

	<i>Six months ended 30 June</i>	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
(Loss)/Profit for the period, before transactions with unitholders	(537,166)	198,231
Adjustments:		
Manager's fee	26,487	26,838
Change in fair value of investment properties	557,439	(116,320)
Change in fair value of derivative financial instruments	80,228	20,824
Finance costs	3,985	3,963
Deferred tax	5,540	6,234
Income available for distribution (note (i))	136,513	139,770
Distributions to unitholders:		
For the six months ended 30 June	136,513	139,770
Distribution per unit (HK\$) (note (ii))	0.0899	0.0933

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\$26,487,000 (2019: HK\$26,838,000) out of the total manager's fee of HK\$27,070,000 (2019: HK\$27,429,000) (the difference of HK\$583,000 (2019: HK\$591,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$557,439,000 (2019: a gain of HK\$116,320,000) and change in fair value change of derivative financial instruments of HK\$80,228,000 (2019: HK\$20,824,000);

- (c) adjustment in respect of the accounting finance costs of HK\$112,858,000 (2019: HK\$53,009,000), less loss on fair value change of derivative financial instruments of HK\$80,228,000 (2019: HK\$20,824,000) and the cash finance costs of HK\$28,645,000 (2019: HK\$28,222,000); and
 - (d) deferred tax provision of HK\$5,540,000 (2019: HK\$6,234,000).
- (ii) The DPU of HK\$0.0899 (2019: HK\$0.0933) is calculated based on Prosperity REIT's income available for distribution of HK\$ 136,513,000 (2019: HK\$139,770,000) over 1,518,303,244 units (2019: 1,498,090,958 units), representing units in issue as at 30 June 2020 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 2020

		30 Jun 2020 HK\$'000 (unaudited)	31 Dec 2019 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	10,571,000	11,126,000
Derivative financial instruments		-	27,288
		10,571,000	11,153,288
Current assets			
Trade and other receivables	9	14,969	11,858
Bank balances and cash		362,649	387,084
		377,618	398,942
Total assets		10,948,618	11,552,230
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		40,399	-
Term loans	11	2,323,912	2,319,927
Deferred tax liabilities		215,476	209,936
		2,579,787	2,529,863
Current liabilities			
Derivative financial instruments		12,541	-
Trade and other payables	10	187,650	191,377
Amounts due to related companies		9,162	13,142
Provision for taxation		19,467	32,265
Manager's fee payable		13,176	13,948
Distribution payable		136,513	134,881
		378,509	385,613
Total liabilities, excluding net assets attributable to unitholders		2,958,296	2,915,476
Net assets attributable to unitholders		7,990,322	8,636,754
Units in issue ('000)	12	1,512,697	1,502,622
Net asset value per unit (HK\$) attributable to unitholders	14	5.28	5.75

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.

Other than additional in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standard (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Concept Framework in HKFRS Standards and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

(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 Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as 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 the relevant disclosure requirements set out in Appendix C of the REIT Code.

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>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	184,449	186,326
Car park income	13,357	15,205
	197,806	201,531
Rental related income (note)	30,925	28,664
	228,731	230,195

Note: Car park income and rental related income (which mainly consists of management fee income and air conditioning income which are payable by the tenants) are recognised over time as income as time elapsed when the services and facilities are provided. The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice an amount that corresponds directly with the value to customer of the entity's performance completed to date on a time basis. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.

(4) Segment information:

During the Reporting Period, Prosperity REIT invested in seven (2019: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, 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 2020 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental income	57,286	41,011	17,629	33,828	22,465	17,978	7,609	197,806
Rental related income	12,013	7,881	2,382	1,820	3,933	1,771	1,125	30,925
Segment revenue in Hong Kong	69,299	48,892	20,011	35,648	26,398	19,749	8,734	228,731
Segment profit	57,008	40,782	15,589	26,311	19,946	14,956	6,498	181,090
Interest income								3,470
Manager's fee								(27,070)
Trust and other expenses								(4,288)
Change in fair value of investment properties								(557,439)
Finance costs								(112,858)
Loss before taxation and transactions with unitholders								(517,095)

Six months ended 30 June 2019 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental income	57,500	39,780	17,693	37,738	22,146	19,126	7,548	201,531
Rental related income	12,229	7,827	2,154	238	3,359	1,768	1,089	28,664
Segment revenue in Hong Kong	69,729	47,607	19,847	37,976	25,505	20,894	8,637	230,195
Segment profit	57,119	39,188	15,252	30,177	18,934	16,383	6,603	183,656
Interest income								3,062
Manager's fee								(27,429)
Trust and other expenses								(4,291)
Change in fair value of investment properties								116,320
Finance costs								(53,009)
Profit before taxation and transactions with unitholders								218,309

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	119	121
Back-office support service fee	-	29
Bank charges	714	708
Legal and professional fees	365	410
Public relations and related expenses	83	146
Registrar fee	300	300
Trust administrative expenses	1,066	942
Trustee's fee	1,641	1,635
	<hr/>	<hr/>
	4,288	4,291
	<hr/> <hr/>	<hr/> <hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Unsecured term loans	35,206	34,055
Interest rate swaps income realised	(2,576)	(1,870)
	<hr/>	<hr/>
	32,630	32,185
Change in fair value of derivative financial instruments	80,228	20,824
	<hr/>	<hr/>
	112,858	53,009
	<hr/> <hr/>	<hr/> <hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	14,531	14,009
Over-provision in prior year	-	(165)
Deferred tax	5,540	6,234
	<hr/>	<hr/>
	20,071	20,078
	<hr/> <hr/>	<hr/> <hr/>

The estimated tax rate used is 16.5% for the period 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 (loss)/earning per unit:

The basic loss per unit is calculated by dividing the loss for the period, before transactions with unitholders of HK\$537,166,000 (2019: profit of HK\$198,231,000) by the weighted average of 1,512,713,129 (2019: 1,494,095,074) 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.

No diluted earnings per unit has been presented as there were no potential units in issue.

(9) Trade and other receivables:

	<i>30 Jun 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	6,470	3,162
Less: allowance for impairment	(466)	(251)
	6,004	2,911
Deposits, prepayments and other receivables	8,965	8,947
	14,969	11,858

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

	<i>30 Jun 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	83	77
1 – 3 months	2,847	2,834
Over 3 months	3,074	-
	6,004	2,911

(10) Trade and other payables:

	<i>30 Jun 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,886	2,098
Tenants' deposits		
- Outside parties	138,374	141,383
- Related parties	3,596	3,450
Rental received in advance		
- Outside parties	4,274	4,972
Other payables	38,520	39,474
	<hr/>	<hr/>
	187,650	191,377
	<hr/> <hr/>	<hr/> <hr/>

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 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	660	823
1 – 3 months	1,317	887
Over 3 months	909	388
	<hr/>	<hr/>
	2,886	2,098
	<hr/> <hr/>	<hr/> <hr/>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. 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 end of the Reporting Period based on the lease terms amounted to HK\$93,151,000 as at 30 June 2020 (31 December 2019: HK\$93,753,000).

(11) Borrowings:

	<i>30 Jun 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(16,088)	(20,073)
	<u>2,323,912</u>	<u>2,319,927</u>
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	<u>2,323,912</u>	<u>2,319,927</u>
	<u>2,323,912</u>	<u>2,319,927</u>

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2019	1,485,860,965	3,194,530
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>16,761,036</u>	<u>53,889</u>
Balance as at 31 December 2019	1,502,622,001	3,248,419
Payment of Manager's base fee and variable fee through issuance of new units during the period	<u>10,075,457</u>	<u>27,247</u>
Balance as at 30 June 2020	<u>1,512,697,458</u>	<u>3,275,666</u>

(13) Investment properties:

	<i>30 Jun 2020</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2019</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	11,126,000	10,990,000
Additional expenditure	2,439	7,888
Change in fair value of investment properties	<u>(557,439)</u>	<u>128,112</u>
Fair value at the end of the period/year	<u>10,571,000</u>	<u>11,126,000</u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,512,697,458 units in issue as at 30 June 2020 (31 December 2019: 1,502,622,001 units).
- (15) At the end of the Reporting Period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$891,000 (31 December 2019: net current assets of HK\$13,329,000) and the Group's total assets less current liabilities amounted to HK\$10,570,109,000 (31 December 2019: HK\$11,166,617,000).
- (16) Certain comparative figures have been reclassified in these condensed consolidated financial statements, which have no material effect on previously reported profit, to conform with the current period's presentation. For the period ended 30 June 2020 and 30 June 2019, change in fair value of derivative financial instruments has been grouped under finance costs as per Note 6 instead of being presented as a line item in the condensed consolidated statement of profit or loss and other comprehensive income.
- (17) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager, and by Prosperity REIT's external 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, 13 August 2020

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.