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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**

### **2016 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 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 (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 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 2016 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2015 as follows:

### Performance Highlights

|  | <u>Six months ended</u><br><u>30 Jun 2016</u><br><u>(unaudited)</u> | <u>Six months ended</u><br><u>30 Jun 2015</u><br><u>(unaudited)</u> | <u>Percentage change</u><br><u>Increase/(Decrease)</u> |
|--|---|---|--|
| <b>Distribution per unit</b><br><b>(“DPU”)</b> | HK\$0.0906  | HK\$0.0871  | 4.0%   |

| <u>Key financial figures</u>      | <u>As at 30 Jun 2016</u><br><u>(unaudited)</u> | <u>As at 31 Dec 2015</u><br><u>(audited)</u> | <u>Percentage change</u><br><u>Increase/(Decrease)</u> |
|-----------------------------------|--|--|--|
| <b>Net asset value per unit</b>   | HK\$5.12                                       | HK\$4.98                                     | 2.8%   |
| <b>Property valuation</b>         | HK\$10,688 million                             | HK\$10,419 million                           | 2.6%   |
| <b>Gearing ratio</b> <sup>1</sup> | 26.5%  | 27.2%  | (0.7%) <sup>2</sup>                                    |

| <u>Operation data</u>                           | <u>Six months ended</u><br><u>30 Jun 2016</u><br><u>(unaudited)</u> | <u>Six months ended</u><br><u>30 Jun 2015</u><br><u>(unaudited)</u> | <u>Percentage change</u><br><u>Increase/(Decrease)</u> |
|---|---|---|--|
| <b>Revenue</b>                                  | HK\$222.9 million   | HK\$215.8 million   | 3.3%   |
| <b>Net property income</b>                      | HK\$176.0 million   | HK\$170.7 million   | 3.1%   |
| <b>Average effective unit rent</b>              | HK\$23.47 per sq. ft.   | HK\$22.40 per sq. ft.   | 4.8%   |
| <b>Occupancy rate</b><br><i>(as at 30 June)</i> | 96.7%   | 98.5%   | (1.8%) <sup>2</sup>                                    |
| <b>Cost-to-revenue ratio</b>                    | 21.1%   | 20.9%   | 0.2% <sup>2</sup>                                      |

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

<sup>2</sup> Absolute change

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 30 June 2016, Prosperity REIT owned a diverse portfolio of eight properties 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 2016, the total gross rentable area was 1,352,174 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2016, was as follows:

|                                    | <b>Location</b> | <b>Gross<br/>rentable<br/>area<br/>sq. ft.</b> | <b>No. of<br/>car<br/>park<br/>spaces</b> | <b>Valuation<br/>HK\$ Million</b> | <b>Occupancy<br/>rate</b> |
|------------------------------------|-----------------|--|---|-----------------------------------|---------------------------|
| <b>Grade A Office</b>              |                 |  |   |                                   |                           |
| The Metropolis Tower               | Hung Hom        | 271,418  | 98  | 3,124                             | 97.0%                     |
| Prosperity Millennia Plaza         | North Point     | 217,955  | 43  | 2,041                             | 96.6%                     |
| 9 Chong Yip Street                 | Kwun Tong       | 136,595  | 68  | 1,089                             | 98.9%                     |
| <b>Commercial</b>                  |                 |  |   |                                   |                           |
| Harbourfront Landmark<br>(portion) | Hung Hom        | 77,021   | –   | 557                               | 100.0%                    |
| Prosperity Place                   | Kwun Tong       | 240,000  | 83  | 1,696                             | 96.5%                     |
| <b>Industrial/Office</b>           |                 |  |   |                                   |                           |
| Trendy Centre                      | Lai Chi Kok     | 173,764  | 79  | 1,011                             | 93.9%                     |
| Prosperity Center<br>(portion)     | Kwun Tong       | 149,253  | 105                                       | 854                               | 95.8%                     |
| <b>Industrial</b>                  |                 |  |   |                                   |                           |
| New Treasure Centre<br>(portion)   | San Po Kong     | 86,168   | 22  | 316                               | 97.1%                     |
| <b>Total</b>                       |                 | <u>1,352,174</u>                               | <u>498</u>                                | <u>10,688</u>                     | <u>96.7%</u>              |

During the Reporting Period, the global market remained weak. The unexpected Brexit added an uncertainty to the Eurozone. However, there was positive sign in the U.S. economy in light of an improving U.S. job market. China's GDP attained a 6.7% Y-o-Y growth in the 1<sup>st</sup> half year.

In Hong Kong property market, both the retail and residential sectors registered downturn in transaction price and volume. However in the office sector, there were notable record high transaction price for strata floor in Central and also sizable newly completed en bloc office transactions in decentralized districts.

In Kowloon East, the office market was stable in the 1<sup>st</sup> half of 2016. International banks and insurance companies were moving their offices to Kowloon East. These high quality tenants or end users will enrich the district with an expanding higher consumption working population supporting the commercial activities in the area. During the Reporting Period, Prosperity REIT achieved a rental reversion rate of 9.6%, complemented with a stable occupancy rate of 96.7%. The average effective unit rent of Prosperity REIT's portfolio recorded a growth of 4.8% to HK\$23.47 per sq. ft.. This solid performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services.

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 21.1% for the Reporting Period.

As at 30 June 2016, Prosperity REIT's gearing ratio remained at a healthy level of 26.5% (31 December 2015: 27.2%), providing us with a strong balance sheet 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 has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties will also be a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, an asset enhancement works was carried out at The Metropolis Tower.

The Metropolis Tower is located in commercial hub of Hung Hom, features a spectacular sea view of the Victoria Harbour. In order to align with the newly completed Grade A office building specification and to increase the competitiveness of our property, renovation of executive and common washrooms on selective floors have been carried out.

## **Outlook**

For the remaining year of 2016, while the full impact of Brexit is yet to unveil, the Eurozone is expected to face economic and political uncertainties of varying degree. In U.S., supported by the positive sign in employment, the next interest rate hike will continue to be in the agenda of the Federal Reserve in late 2016 or 2017.

In China, the government continues its monetary policy with an aim to reduce financing costs and to provide adequate liquidity in the capital market. China's GDP growth is expected to be stable in the 2<sup>nd</sup> half year with the IMF prediction at 6.6% for the full year.

Hong Kong will face multiple challenges. Leveraged on stable growth in China's GDP and a low interest rate environment, Hong Kong is anticipated to have slow economic growth.

Prosperity REIT has demonstrated the ability to capture market opportunities and to effectively manage the operation throughout different economic cycles. Being a long term player in Kowloon East office market with the strong presence in the district, Prosperity REIT is well-positioned to gain further benefits from Kowloon East transformation. With the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, we will continue to implement effective asset management strategies. Barring unforeseen circumstances, we are cautiously optimistic about our prospects in the future.

## Financial Review

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

|                                    | <b>Turnover</b><br><i>HK\$'000</i> | <b>Rental<br/>related<br/>income</b><br><i>HK\$'000</i> | <b>Revenue</b><br><i>HK\$'000</i> | <b>Net<br/>property<br/>income</b><br><i>HK\$'000</i> |
|------------------------------------|------------------------------------|---|-----------------------------------|---|
| <b>Grade A Office</b>              |                                    |   |                                   |   |
| The Metropolis Tower               | 51,735                             | 9,906   | 61,641                            | 47,686  |
| Prosperity Millennia Plaza         | 37,662                             | 6,772   | 44,434                            | 36,724  |
| 9 Chong Yip Street                 | 17,157                             | 2,061   | 19,218                            | 15,440  |
| <b>Commercial</b>                  |                                    |   |                                   |   |
| Harbourfront Landmark<br>(portion) | 11,743                             | 3,149   | 14,892                            | 12,323  |
| Prosperity Place                   | 32,921                             | 174   | 33,095                            | 26,704  |
| <b>Industrial/Office</b>           |                                    |   |                                   |   |
| Trendy Centre                      | 20,073                             | 3,077   | 23,150                            | 16,918  |
| Prosperity Center<br>(portion)     | 17,333                             | 1,592   | 18,925                            | 14,430  |
| <b>Industrial</b>                  |                                    |   |                                   |   |
| New Treasure Centre<br>(portion)   | 6,633                              | 937   | 7,570                             | 5,728   |
| <b>Total</b>                       | <b>195,257</b>                     | <b>27,668</b>   | <b>222,925</b>                    | <b>175,953</b>  |

### Revenue

During the Reporting Period, revenue improved to HK\$222.9 million, being HK\$7.1 million or 3.3% higher than the last corresponding half year.

The revenue comprised HK\$195.2 million of rental and car park income, plus HK\$27.7 million of rental related income. Rental and car park income was HK\$7.1 million or 3.8% higher than the last corresponding half year.

### Net Property Income

For the Reporting Period, the net property income was HK\$176.0 million, exceeding that of the last corresponding half year by HK\$5.3 million or 3.1%. The growth was mainly attributable to the rental reversion rate of 9.6% for the entire portfolio. The cost-to-revenue ratio was 21.1%.

### Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$131.4 million, representing a DPU of HK\$0.0906. This represents an annualised distribution yield of 5.7%<sup>3</sup>. 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\$6.3 million (equivalent to HK\$0.0044 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 2016, Prosperity REIT had facilities in aggregate of HK\$3,284 million, comprising:

- (i) a term loan and revolving credit facility of up to an aggregate principal amount of HK\$2,500 million (the “**HK\$2,500 Million Facilities**”) comprising a HK\$2,070 million secured term loan facility and a HK\$430 million secured revolving credit facility, which bear interest at a margin of 1.35% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 14 November 2014, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity;
- (ii) a HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014 (the “**HK\$404 Million Facility**”); and
- (iii) a HK\$380 million unsecured term loan, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014 (the “**HK\$380 Million Facility**”).

In relation to the HK\$2,500 Million Facilities, the term loan facility of HK\$2,070 million was fully drawn on 28 November 2014 for the purposes of refinancing the facilities due to expire in August 2015. None of the revolving credit facility was drawn as at 30 June 2016.

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<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$3.18 as at 30 June 2016

The HK\$404 Million Facility and the HK\$380 Million Facility were fully drawn on 22 January 2014 to partly finance the acquisition of 9 Chong Yip Street.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2016, the interest costs for approximately 55% (31 December 2015: 55%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 26.5% as at 30 June 2016, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 31.3% as at 30 June 2016.

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\$264.1 million, based on a professional valuation performed by an independent valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

|  | <i>30 Jun 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|--|---|---|
| Fair value at the beginning of the period/year | 10,419,000  | 9,890,000   |
| Additional expenditure                         | 4,911   | 13,298  |
| Change in fair value of investment properties  | 264,089   | 515,702   |
| Fair value at the end of the period/year       | <u>10,688,000</u>   | <u>10,419,000</u>   |

#### Charges on Assets

As at 30 June 2016, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,682 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and certain of its subsidiaries have provided guarantees for the HK\$2,500 Million Facilities, the HK\$404 Million Facility and HK\$380 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 17,233,000 units 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 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, 1 September 2016 to Tuesday, 6 September 2016, 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, 31 August 2016. The payment date of interim distribution will be on Monday, 12 September 2016.

## **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 2016.

**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 Wednesday, 31 August 2016.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2016*

|   |              | <i>Six months ended 30 June</i> |                    |
|---|--------------|---------------------------------|--------------------|
|   | <i>Notes</i> | <i>2016</i>                     | <i>2015</i>        |
|   |              | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|   |              | <i>(unaudited)</i>              | <i>(unaudited)</i> |
| Revenue   | 3            | 222,925                         | 215,802            |
| Property management fees  |              | (5,345)                         | (5,141)            |
| Property operating expenses   |              | (41,627)                        | (39,974)           |
| Total property operating expenses   |              | <u>(46,972)</u>                 | <u>(45,115)</u>    |
| <b>Net property income</b>  |              | 175,953                         | 170,687            |
| Interest income   |              | 23                              | 39                 |
| Manager's fee   |              | (26,328)                        | (25,105)           |
| Trust and other expenses  | 5            | (4,906)                         | (4,458)            |
| Change in fair value of investment properties   |              | 264,089                         | 359,692            |
| Change in fair value of derivative financial instruments  |              | (9,535)                         | 199                |
| Finance costs   | 6            | <u>(35,341)</u>                 | <u>(36,645)</u>    |
| <b>Profit before taxation and transactions with unitholders</b>                                 |              | 363,955                         | 464,409            |
| Taxation  | 7            | <u>(16,965)</u>                 | <u>(17,500)</u>    |
| <b>Profit for the period, before transactions with unitholders</b>                              |              | 346,990                         | 446,909            |
| Distribution to unitholders   |              | <u>(131,372)</u>                | <u>(124,771)</u>   |
| <b>Profit for the period, after transactions with unitholders</b>                               |              | 215,618                         | 322,138            |
| <b>Other comprehensive income – item that may be subsequently classified to profit or loss:</b> |              |                                 |                    |
| Change in fair value of cash flow hedge   |              | -                               | (757)              |
| Reclassification of hedging reserve to profit or loss   |              | 1,261                           | -                  |
| Other comprehensive income for the period   |              | 1,261                           | (757)              |
| <b>Total comprehensive income for the period, after transactions with unitholders</b>           |              | <u>216,879</u>                  | <u>321,381</u>     |
| <b>Income available for distribution to unitholders</b>   |              | <u>131,372</u>                  | <u>124,771</u>     |
| <b>Basic earnings per unit (HK\$)</b>   | 8            | <u>0.24</u>                     | <u>0.31</u>        |

## DISTRIBUTION STATEMENT

For the six months ended 30 June 2016

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2016                     | 2015           |
|  | HK\$'000                 | HK\$'000       |
|  | (unaudited)              | (unaudited)    |
| <b>Profit for the period, before transactions with unitholders</b> | <b>346,990</b>           | <b>446,909</b> |
| <b>Adjustments:</b>  |                          |                |
| Manager's fee  | 25,758                   | 24,544         |
| Change in fair value of investment properties                      | (264,089)                | (359,692)      |
| Change in fair value of derivative financial instruments           | 9,535                    | (199)          |
| Finance costs  | 6,333                    | 6,298          |
| Deferred tax   | 6,845                    | 6,911          |
| <b>Income available for distribution (note (i))</b>                | <b>131,372</b>           | <b>124,771</b> |
| <b>Distribution to unitholders:</b>                                |                          |                |
| For the six months ended 30 June                                   | 131,372                  | 124,771        |
| <b>Distribution per unit (HK\$) (note (ii))</b>                    | <b>0.0906</b>            | <b>0.0871</b>  |

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\$25,758,000 (2015: HK\$24,544,000) out of the total manager's fee of HK\$26,328,000 (2015: HK\$25,105,000) (the difference of HK\$570,000 (2015: HK\$561,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$264,089,000 (2015: HK\$359,692,000), and change in fair value of derivative financial instruments of HK\$9,535,000 (2015: HK\$199,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$35,341,000 (2015: HK\$36,645,000) and the cash finance cost of HK\$29,008,000 (2015: HK\$30,347,000); and
- (d) deferred tax provision of HK\$6,845,000 (2015: HK\$6,911,000).

(ii) The DPU of HK\$0.0906 (2015: HK\$0.0871) is calculated based on Prosperity REIT's income available for distribution of HK\$131,372,000 (2015: HK\$124,771,000) over 1,449,733,936 units (2015: 1,432,382,505 units), representing units in issue as at 30 June 2016 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 2016

|  | Notes | 30 Jun 2016<br>HK\$'000<br>(unaudited) | 31 Dec 2015<br>HK\$'000<br>(audited) |
|--|-------|--|--------------------------------------|
| <b>ASSETS AND LIABILITIES</b>  |       |  |                                      |
| <b>Non-current assets</b>  |       |  |                                      |
| Investment properties  |       | 10,688,000                             | 10,419,000                           |
| <b>Current assets</b>  |       |  |                                      |
| Trade and other receivables  | 9     | 8,518                                  | 8,803                                |
| Bank balances and cash   |       | 79,179                                 | 64,911                               |
| Total current assets   |       | 87,697                                 | 73,714                               |
| <b>Total assets</b>  |       | <b>10,775,697</b>                      | <b>10,492,714</b>                    |
| <b>Non-current liabilities, excluding net assets attributable to unitholders</b> |       |  |                                      |
| Derivative financial instruments   |       | 16,397                                 | 8,123                                |
| Term loans   | 11    | 2,441,016                              | 2,813,311                            |
| Deferred tax liabilities   |       | 178,316                                | 171,471                              |
| Total non-current liabilities, excluding net assets attributable to unitholders  |       | 2,635,729                              | 2,992,905                            |
| <b>Current liabilities</b>   |       |  |                                      |
| Trade and other payables   | 10    | 197,911                                | 188,531                              |
| Amounts due to related companies   |       | 8,148                                  | 10,821                               |
| Term loan  | 11    | 378,628                                | -                                    |
| Provision for taxation   |       | 12,413                                 | 2,293                                |
| Manager's fee payable  |       | 13,211                                 | 13,117                               |
| Distribution payable   |       | 131,372                                | 129,312                              |
| Total current liabilities  |       | 741,683                                | 344,074                              |
| <b>Total liabilities, excluding net assets attributable to unitholders</b>       |       | <b>3,377,412</b>                       | <b>3,336,979</b>                     |
| <b>Net assets attributable to unitholders</b>                                    |       | <b>7,398,285</b>                       | <b>7,155,735</b>                     |
| <b>Units in issue ('000)</b>   | 12    | <b>1,445,972</b>                       | <b>1,436,854</b>                     |
| <b>Net asset value per unit (HK\$) attributable to unitholders</b>               | 13    | <b>5.12</b>                            | <b>4.98</b>                          |

## 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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015 except as described below.

In the current period, the Group has applied the following amendments 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 2016:

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

The application of the amendments 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.

|          |  |
|----------|--|
| HKFRS 9  | Financial Instruments <sup>1</sup>                 |
| HKFRS 15 | Revenue from Contracts with Customers <sup>1</sup> |
| HKFRS 16 | Leases <sup>3</sup>                                |

|                                    |  |
|------------------------------------|--|
| Amendments to HKFRS 15             | Clarifications to HKFRS 15 Revenue from Contracts with Customers <sup>1</sup>                      |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup> |
| Amendments to HKAS 7               | Disclosure Initiative <sup>4</sup>   |
| Amendments to HKAS 12              | Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>                              |

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

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> 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 requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under 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 income, 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 attributable to a 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 is presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The REIT Manager anticipates that the application of HKFRS 9 will not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

The REIT Manager anticipates that the application of these new and revised HKFRSs in the future will not have a material effect on the Group's financial performance and position.

(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.

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, the Group 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>2016</i>                     | <i>2015</i>        |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|   | <i>(unaudited)</i>              | <i>(unaudited)</i> |
| Gross rental from investment properties |                                 |                    |
| Rental income                           | 182,353                         | 175,500            |
| Car park income                         | 12,904                          | 12,603             |
|   | 195,257                         | 188,103            |
| Rental related income                   | 27,668                          | 27,699             |
|   | 222,925                         | 215,802            |

(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, 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 2016 (unaudited)

|  | The<br>Metropolis<br>Tower<br><i>HK\$'000</i> | Prosperity<br>Millennia<br>Plaza<br><i>HK\$'000</i> | 9<br>Chong Yip<br>Street<br><i>HK\$'000</i> | Harbourfront<br>Landmark<br>(portion)<br><i>HK\$'000</i> | Prosperity<br>Place<br><i>HK\$'000</i> | Trendy<br>Centre<br><i>HK\$'000</i> | Prosperity<br>Center<br>(portion)<br><i>HK\$'000</i> | New<br>Treasure<br>Centre<br>(portion)<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--|---|---|---|--|--|-------------------------------------|--|---|---------------------------------|
| Segment revenue in Hong Kong                             | 61,641  | 44,434  | 19,218                                      | 14,892   | 33,095                                 | 23,150                              | 18,925   | 7,570   | 222,925                         |
| Segment profit   | 47,686  | 36,724  | 15,440                                      | 12,323   | 26,704                                 | 16,918                              | 14,430   | 5,728   | 175,953                         |
| Interest income  |   |   |   |  |  |                                     |  |   | 23                              |
| Manager's fee  |   |   |   |  |  |                                     |  |   | (26,328)                        |
| Trust and other expenses                                 |   |   |   |  |  |                                     |  |   | (4,906)                         |
| Change in fair value of investment properties            |   |   |   |  |  |                                     |  |   | 264,089                         |
| Change in fair value of derivative financial instruments |   |   |   |  |  |                                     |  |   | (9,535)                         |
| Finance costs  |   |   |   |  |  |                                     |  |   | (35,341)                        |
| Profit before taxation and transactions with unitholders |   |   |   |  |  |                                     |  |   | <u>363,955</u>                  |

### Six months ended 30 June 2015 (unaudited)

|  | The<br>Metropolis<br>Tower<br><i>HK\$'000</i> | Prosperity<br>Millennia<br>Plaza<br><i>HK\$'000</i> | 9<br>Chong Yip<br>Street<br><i>HK\$'000</i> | Harbourfront<br>Landmark<br>(portion)<br><i>HK\$'000</i> | Prosperity<br>Place<br><i>HK\$'000</i> | Trendy<br>Centre<br><i>HK\$'000</i> | Prosperity<br>Center<br>(portion)<br><i>HK\$'000</i> | New<br>Treasure<br>Centre<br>(portion)<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--|---|---|---|--|--|-------------------------------------|--|---|---------------------------------|
| Segment revenue in Hong Kong                             | 62,755  | 42,881  | 18,843                                      | 13,836   | 29,232                                 | 23,220                              | 17,780   | 7,255   | 215,802                         |
| Segment profit   | 50,410  | 35,310  | 15,218                                      | 11,375   | 21,207                                 | 18,012                              | 13,698   | 5,457   | 170,687                         |
| Interest income  |   |   |   |  |  |                                     |  |   | 39                              |
| Manager's fee  |   |   |   |  |  |                                     |  |   | (25,105)                        |
| Trust and other expenses                                 |   |   |   |  |  |                                     |  |   | (4,458)                         |
| Change in fair value of investment properties            |   |   |   |  |  |                                     |  |   | 359,692                         |
| Change in fair value of derivative financial instruments |   |   |   |  |  |                                     |  |   | 199                             |
| Finance costs  |   |   |   |  |  |                                     |  |   | (36,645)                        |
| Profit before taxation and transactions with unitholders |   |   |   |  |  |                                     |  |   | <u>464,409</u>                  |

(5) Trust and other expenses:

|                                   | <i>Six months ended 30 June</i> |                    |
|-----------------------------------|---------------------------------|--------------------|
|                                   | <i>2016</i>                     | <i>2015</i>        |
|                                   | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|                                   | <i>(unaudited)</i>              | <i>(unaudited)</i> |
| Audit fee                         | 118                             | 115                |
| Trustee's fee                     | 1,559                           | 1,478              |
| Bank charges                      | 991                             | 989                |
| Legal and professional fees       | 631                             | 235                |
| Registrar fee                     | 300                             | 300                |
| Back-office support service fee   | 36                              | 25                 |
| Public relations-related expenses | 174                             | 282                |
| Trust administrative expenses     | 1,097                           | 1,034              |
|                                   | <hr/>                           | <hr/>              |
|                                   | 4,906                           | 4,458              |
|                                   | <hr/>                           | <hr/>              |

(6) Finance costs:

|   | <i>Six months ended 30 June</i> |                    |
|---|---------------------------------|--------------------|
|   | <i>2016</i>                     | <i>2015</i>        |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|   | <i>(unaudited)</i>              | <i>(unaudited)</i> |
| Interest expense on:  |                                 |                    |
| Secured term loans  | 25,150                          | 24,713             |
| Unsecured term loan   | 4,599                           | 4,528              |
| Equalisation of interest expense through<br>interest rate swaps | 5,539                           | 7,286              |
|   | <hr/>                           | <hr/>              |
|   | 35,288                          | 36,527             |
| Secured revolving loan  | 53                              | 118                |
|   | <hr/>                           | <hr/>              |
|   | 35,341                          | 36,645             |
|   | <hr/>                           | <hr/>              |

(7) Taxation:

|                                | <i>Six months ended 30 June</i> |                    |
|--------------------------------|---------------------------------|--------------------|
|                                | <i>2016</i>                     | <i>2015</i>        |
|                                | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|                                | <i>(unaudited)</i>              | <i>(unaudited)</i> |
| Current tax                    | 10,120                          | 10,185             |
| Under-provision in prior years | -                               | 404                |
| Deferred tax                   | 6,845                           | 6,911              |
|                                | <hr/>                           | <hr/>              |
|                                | 16,965                          | 17,500             |
|                                | <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\$346,990,000 (2015: HK\$446,909,000) by the weighted average of 1,445,799,439 (2015: 1,428,080,500) 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 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|---|---|---|
| Trade receivables                           | 522   | 348   |
| Less: allowance for doubtful debts          | (11)  | (37)  |
|   | <hr/> 511   | <hr/> 311   |
| Deposits, prepayments and other receivables | 8,007   | 8,492   |
|   | <hr/> 8,518   | <hr/> 8,803   |
|   | <hr/> <hr/>   | <hr/> <hr/>   |

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 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|-------------------|---|---|
| Current – 1 month | 102   | 62  |
| 2 – 3 months      | 269   | 249   |
| Over 3 months     | 140   | -   |
|                   | <hr/> 511   | <hr/> 311   |
|                   | <hr/> <hr/>   | <hr/> <hr/>   |

(10) Trade and other payables:

|                            | <i>30 Jun 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|----------------------------|---|---|
| Trade payables             | 3,987   | 1,357   |
| Tenants' deposits          |   |   |
| - Outside parties          | 139,850   | 136,545   |
| - Related parties          | 770   | 768   |
| Rental received in advance |   |   |
| - Outside parties          | 5,759   | 3,359   |
| Other payables             | 47,545  | 46,502  |
|                            | <hr/>   | <hr/>   |
|                            | 197,911   | 188,531   |
|                            | <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 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|-------------------|---|---|
| Current – 1 month | 1,322   | 475   |
| 2 – 3 months      | 1,924   | 551   |
| Over 3 months     | 741   | 331   |
|                   | <hr/>   | <hr/>   |
|                   | 3,987   | 1,357   |
|                   | <hr/> <hr/>   | <hr/> <hr/>   |

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 end of the Reporting Period based on the lease terms amounted to HK\$98,409,000 as at 30 June 2016 (31 December 2015: HK\$94,173,000).

(11) Borrowings:

|  | <i>30 Jun 2016</i><br><i>HK\$'000</i><br><i>(unaudited)</i> | <i>31 Dec 2015</i><br><i>HK\$'000</i><br><i>(audited)</i> |
|--|---|---|
| Secured term loans   | 2,474,000   | 2,474,000   |
| Unsecured term loan  | 380,000   | 380,000   |
| Bank facility origination fees   | (34,356)  | (40,689)  |
|  | <hr/>   | <hr/>   |
|  | 2,819,644   | 2,813,311   |
|  | <hr/> <hr/>   | <hr/> <hr/>   |
| Carrying amount repayable:   |   |   |
| Within one year  | 378,628   | -   |
| Within a period of more than one year<br>but not exceeding two years   | -   | 377,366   |
| Within a period of more than two years<br>but not exceeding five years | 2,441,016   | 2,435,945   |
|  | <hr/>   | <hr/>   |
|  | 2,819,644   | 2,813,311   |
|  | <hr/> <hr/>   | <hr/> <hr/>   |

(12) Units in issue:

|  | Number of units | HK\$'000    |
|--|-----------------|-------------|
| Balance as at 1 January 2015   | 1,419,635,074   | 2,990,328   |
| Payment of Manager's base fee and<br>variable fee through issuance of new units<br>during the year   | 17,218,841      | 49,242      |
|  | <hr/>           | <hr/>       |
| Balance as at 31 December 2015   | 1,436,853,915   | 3,039,570   |
| Payment of Manager's base fee and variable<br>fee through issuance of new units during the<br>period | 9,118,054       | 25,671      |
|  | <hr/>           | <hr/>       |
| Balance as at 30 June 2016   | 1,445,971,969   | 3,065,241   |
|  | <hr/> <hr/>     | <hr/> <hr/> |

- (13) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve is nil as at 30 June 2016 (31 December 2015: HK\$1,261,000), and the total number of 1,445,971,969 units in issue as at 30 June 2016 (31 December 2015: 1,436,853,915 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\$653,986,000 (31 December 2015: HK\$270,360,000) and the Group's total assets less current liabilities amounted to HK\$10,034,014,000 (31 December 2015: HK\$10,148,640,000).
- (15) 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, 11 August 2016

*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.*