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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**

### **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014**

Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011 (collectively, the “**Trust Deed**”) between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the “**REIT Manager**”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector real estate investment trust (“**REIT**”) to list on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 December 2005 (the “**Listing Date**”). As at 31 December 2014, Prosperity REIT owned a diverse portfolio of eight high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2014 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2013 as follows:

**Performance Highlights**

	<b><u>Year ended</u></b> <b><u>31 Dec 2014</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2013</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Distribution per unit</b> <b>(“DPU”)</b>	HK\$0.1630	HK\$0.1495	9.0%

<b><u>Key financial figures</u></b>	<b><u>As at 31 Dec 2014</u></b>	<b><u>As at 31 Dec 2013</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Net asset value per unit</b>	HK\$4.70	HK\$4.57	2.8%
<b>Property valuation</b>	HK\$9,890 million	HK\$8,518 million	16.1%
<b>Gearing ratio</b> <sup>1</sup>	28.6%	20.9%	7.7% <sup>2</sup>

<b><u>Operation data</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2014</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2013</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Revenue</b>	HK\$403.4 million	HK\$341.9 million	18.0%
<b>Net property income</b>	HK\$312.1 million	HK\$266.9 million	16.9%
<b>Average effective unit rent</b>	HK\$20.81 per sq. ft.	HK\$19.03 per sq. ft.	9.4%
<b>Occupancy rate</b> <i>(as at 31 Dec)</i>	97.7%	98.9%	(1.2%) <sup>2</sup>
<b>Rental reversion rate</b>	32.1%	34.9%	(2.8%) <sup>2</sup>
<b>Cost-to-revenue ratio</b>	22.6%	21.9%	0.7% <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

## **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 for the financial year ended 31 December 2014. 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.

## **Business Overview**

2014 was a landmark year for Prosperity REIT. We achieved a significant milestone as the acquisition of 9 Chong Yip Street, our major acquisition, was successfully completed. Together with the successful refinancing of the bank loan facilities, we are all ready to capture growth opportunities.

During the Reporting Year, distributable income increased 10.7% year-on-year (“YoY”) to HK\$231.4 million as a result of the additional income from 9 Chong Yip Street and the solid performance across Prosperity REIT’s entire portfolio. Property valuation rose 16.1% YoY to HK\$9,890 million, mainly due to the addition of 9 Chong Yip Street. Net asset value per unit registered a mild growth of 2.8% YoY to HK\$4.70 as at 31 December 2014.

I am pleased to announce a total distribution per unit (“DPU”) of HK\$0.1630, representing a rise of 9.0% YoY and an attractive distribution yield of 6.2%<sup>3</sup>.

## **Market Review**

Market sentiment in Hong Kong was affected by several factors throughout the Reporting Year, including a potential US interest rate hike as well as the slowing down of economies in China and Europe. Leasing activities generally slowed down as tenants remained cautious about the business outlook amidst an uncertain environment. In the Kowloon East district in particular, the increase in supply of strata-titled units, especially from the revitalized buildings, offered a variety of choices to office-seekers. Consequently, landlords who faced intense competition in seeking tenants have become more flexible in leasing terms.

## **Operations Review**

Despite the market challenges, our proactive leasing strategies, attentive property management services, as well as the premium quality of our properties led to admirable results. During the Reporting Year, revenue and net property income increased 18.0% and 16.9% to HK\$403.4

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<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$2.64 as at 31 December 2014

million and HK\$312.1 million respectively. A strong rental reversion rate of 32.1% across the entire portfolio was achieved. Occupancy rate remained stable at 97.7% as at 31 December 2014.

The acquisition of 9 Chong Yip Street, being the first major acquisition in Prosperity REIT's history, expanded our portfolio size by 11.2% to 1,352,174 sq. ft., added economies of scale to our operations and generated additional distribution to our unitholders. The acquisition was completed on 22 January 2014. It provided a partial contribution, accounting for 8.3% of the portfolio revenue during the Reporting Year.

### **Financial Review**

During the Reporting Year, new bank loans were secured in order to finance the acquisition of 9 Chong Yip Street and refinance the existing loans. Accordingly, gearing ratio increased to 28.6% as at 31 December 2014, a prudent level while still allowing sufficient future growth opportunities. As a result of the refinancing, our debt maturity profile was extended with no major refinancing needs until November 2019. There will also be financial flexibility as some previously pledged properties were released following the refinancing exercise.

### **Prospects**

Looking ahead, the global economy will recover at a slow pace, and uncertainties will continue to loom over Hong Kong. Nevertheless, the prospects of Kowloon East, where the majority of Prosperity REIT's properties are located in, should remain intact under this business environment. It stays on track to become the second central business district ("CBD2") of Hong Kong. The huge capital investments in the district made by multinational companies and investment funds are clear indicators of their confidence in Kowloon East.

As we remain cautiously optimistic about Hong Kong's economy, we will continue to actively manage our assets, invest prudently and closely monitor the financial risks. At the same time, we are confident that our strategically positioned portfolio, which leverages on Kowloon East's gradual emergence into a commercial hub, will continue to bring good results to our unitholders.

### **Acknowledgements**

I would like to take this opportunity to thank my fellow Board members, our management team, staff members, tenants, service providers and business partners for their contributions to

the success of Prosperity REIT.

Special thanks must go to the investors and analysts who voted Prosperity REIT as Hong Kong's Best Small Cap Company in *FinanceAsia's* Best Managed Companies poll 2014. Having received this prestigious award for the second consecutive year, we are pleased that our hard work has been recognized by the investment community.

Finally, I would like to express my deep gratitude to you, our unitholders, for your continued support and confidence in us throughout the year.

**Chiu Kwok Hung, Justin**

*Chairman*

**ARA Asset Management (Prosperity) Limited  
as manager of Prosperity REIT**

Hong Kong, 5 March 2015

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 2014, 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 31 December 2014, 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 31 December 2014, was as follows:

	<b>Location</b>	<b>Gross rentable area</b> <i>sq. ft.</i>	<b>No. of car park spaces</b>	<b>Valuation</b> <i>HK\$ million</i>	<b>Occupancy rate</b>
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,042	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	1,824	99.3%
9 Chong Yip Street	Kwun Tong	136,595	68	1,079	96.6%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	461	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,436	92.6%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	955	96.9%
Prosperity Center (portion)	Kwun Tong	149,253	105	800	98.6%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	293	100.0%
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>9,890</b>	<b>97.7%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A stable occupancy rate of 97.7% was recorded as at 31 December 2014, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 22.6%.

### **Investment Review**

Prosperity REIT successfully completed its first major acquisition in January 2014. The acquisition of 9 Chong Yip Street was the major contributing factor to the 16.1% YoY increase in the portfolio valuation of HK\$9,890 million. With the enlarged portfolio, Prosperity REIT has further diversified its tenant base and achieved economies of scale in operation. Furthermore, the strategic location of 9 Chong Yip Street strengthened Prosperity REIT's foothold in Kowloon East, a maturing decentralized business district with bright growth prospects. With the acquisition, 33.0% of Prosperity REIT's net property income came from this burgeoning district during the Reporting Year.

The REIT Manager will continue to implement its acquisition strategy prudently and assess every acquisition target 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**

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at 9 Chong Yip Street and Prosperity Place. Asset enhancement initiatives will continue in 2015 across the portfolio, with prudently planned payback periods.

### **9 Chong Yip Street**

9 Chong Yip Street is located in the Kwun Tong district of Kowloon East, an area which has recently experienced tremendous growth as a new commercial hub. In order to fully unlock its potential and reflect its strategic location in Kowloon East, a series of asset enhancement works have been carried out at 9 Chong Yip Street during the Reporting Year. The works include renovation of the lower portion of the external façade, ground floor main lobby, passenger lift lobbies, common corridors and common washrooms on typical floors. A roof

garden is now under planning. All of these asset enhancement works are expected to be completed by the first half of 2015.

### **Prosperity Place**

Prosperity Place is also located in the Kwun Tong district of Kowloon East. Following the execution of the special waiver to convert Prosperity Place from industrial/office use to commercial use at the end of 2012, first-time commercial tenants have been introduced to the property. During the Reporting Year, an additional number of selected floors have been renovated to create a commercial outlook and widen our tenant base. In addition, we have replaced an existing chiller plant with a more energy-efficient model in the first quarter of 2014, enabling about 15% in energy cost savings for air conditioning provision.

## **Financial Review**

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

	<b>Turnover</b>	<b>Rental related income</b>	<b>Revenue</b>	<b>Net property income</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Grade A Office</b>				
The Metropolis Tower	101,964	19,887	121,851	100,990
Prosperity Millennia Plaza	66,725	12,585	79,310	62,728
9 Chong Yip Street	30,387	3,199	33,586	25,019
<b>Commercial</b>				
Harbourfront Landmark (portion)	16,254	5,729	21,983	14,813
Prosperity Place	55,683	452	56,135	41,998
<b>Industrial/Office</b>				
Trendy Centre	36,621	6,461	43,082	30,602
Prosperity Center (portion)	30,685	3,110	33,795	25,602
<b>Industrial</b>				
New Treasure Centre (portion)	11,922	1,749	13,671	10,304
<b>Total</b>	<b>350,241</b>	<b>53,172</b>	<b>403,413</b>	<b>312,056</b>

## **Revenue**

During the Reporting Year, revenue improved to HK\$403.4 million, being HK\$61.5 million or 18.0% higher than that of 2013.

The revenue comprised HK\$350.2 million of rental and car park income, plus HK\$53.2 million of rental related income. Rental and car park income was HK\$58.0 million or 19.8% above that of 2013.

### Net Property Income

For the Reporting Year, the net property income was HK\$312.1 million, exceeding that of 2013 by HK\$45.1 million or 16.9%. The growth was attributable to the additional net property income of HK\$25.0 million from 9 Chong Yip Street acquired in January 2014, as well as the strong rental reversion rate of 32.1% for the entire portfolio. The cost-to-revenue ratio was 22.6%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$231.4 million, representing a total DPU of HK\$0.1630. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$21.2 million (equivalent to HK\$0.0149 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.

The distributable income for the half year from 1 July 2014 to 31 December 2014 is HK\$116.1 million, equivalent to a DPU of HK\$0.0815. The interim DPU from 1 January 2014 to 30 June 2014 was HK\$0.0815, and the total DPU for the Reporting Year is HK\$0.1630, which represents a distribution yield of 6.2%<sup>4</sup>. The DPU increased 9.0% YoY mainly due to the increase in net property income, as a result of the additional income contribution from 9 Chong Yip Street acquired in January 2014 and the strong rental reversion rate for the entire portfolio.

The distribution for the half year from 1 July 2014 to 31 December 2014 will be paid on Thursday, 2 April 2015.

### Liquidity and Financing

As at 31 December 2014, 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

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<sup>4</sup> Based on Prosperity REIT's closing unit price of HK\$2.64 as at 31 December 2014

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 31 December 2014.

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 plain vanilla interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2014, the interest costs for approximately 55% (31 December 2013: 55%) of Prosperity REIT’s outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT’s gross assets was 28.6% as at 31 December 2014, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 33.1% as at 31 December 2014.

Taking into account the fair value of investment properties, presently 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 Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$332.1 million, based on a professional valuation performed by an independent valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	<b>31 December 2014</b> <i>HK\$'000</i>	31 December 2013 <i>HK\$'000</i>
Fair value at the beginning of the year	<b>8,518,000</b>	7,952,000
Additional expenditure	<b>25,845</b>	15,409
Acquisition	<b>1,014,054</b>	–
Increase in fair value of investment properties	<b>332,101</b>	550,591
Fair value at the end of the year	<b>9,890,000</b>	8,518,000

### Charges on Assets

As at 31 December 2014, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,280 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and its subsidiaries have provided guarantees for the HK\$2,500 Million Facilities, the HK\$404 Million Facility and the 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 Year, other than the disposal of 28,817,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee and acquisition fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

## **CORPORATE GOVERNANCE**

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “**Compliance Manual**”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT will be set out in the Annual Report of Prosperity REIT for the Reporting Year. During the Reporting Year, 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, 23 March 2015 to Thursday, 26 March 2015, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the 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, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 20 March 2015. The payment date of the final distribution will be on Thursday, 2 April 2015.

## **REVIEW OF FINAL RESULTS**

The final results of Prosperity REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager.

## **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 31 December 2014.

## **ISSUANCE OF ANNUAL REPORT**

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to

unitholders on or before Thursday, 30 April 2015.

**ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on Thursday, 7 May 2015. Notice of the annual general meeting will be published and issued to unitholders in due course.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Revenue	3	403,413	341,883
Property management fees		(9,460)	(7,836)
Property operating expenses		(81,897)	(67,116)
Total property operating expenses		(91,357)	(74,952)
<b>Net property income</b>		312,056	266,931
Interest income		1	25
Manager's fee		(48,054)	(41,353)
Trust and other expenses	5	(22,139)	(9,834)
Change in fair value of investment properties		332,101	550,591
Change in fair value of derivative financial instruments		(6,567)	-
Finance costs	6	(69,281)	(41,967)
<b>Profit before taxation and transactions with unitholders</b>		498,117	724,393
Taxation	7	(31,624)	(28,664)
<b>Profit for the year, before transactions with unitholders</b>		466,493	695,729
Distribution to unitholders		(231,364)	(209,056)
<b>Profit for the year, after transactions with unitholders</b>		235,129	486,673
<b>Other comprehensive income – Item that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		3,665	15,035
Reclassification of hedging reserve to profit or loss		12,799	-
Other comprehensive income for the year		16,464	15,035
<b>Total comprehensive income for the year, after transactions with unitholders</b>		251,593	501,708
<b>Income available for distribution to unitholders</b>		231,364	209,056
<b>Basic earnings per unit (HK\$)</b>	8	0.33	0.50

## Distribution Statement

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>466,493</b>	<b>695,729</b>
Adjustments:		
Manager's fee	46,973	41,283
Acquisition fee	10,100	-
Change in fair value of investment properties	(332,101)	(550,591)
Change in fair value of derivative financial instruments	6,567	-
Finance costs	21,222	10,126
Deferred tax	12,110	12,509
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>231,364</b>	<b>209,056</b>
<b>Distributions to unitholders:</b>		
HK\$0.0815 (2013: HK\$0.0744) per unit for the six months ended 30 June (note (ii))	115,302	103,568
HK\$0.0815 (2013: HK\$0.0751) per unit for the six months ended 31 December (note (iii))	116,062	105,488
	<hr/>	<hr/>
	231,364	209,056
	<hr/>	<hr/>
<b>Total distribution per unit (HK\$)</b>	<b>0.1630</b>	<b>0.1495</b>
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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 REIT Manager's stated policy 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 for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the relevant financial year.

These adjustments for the current year comprise:

- (a) manager's fees paid/payable in units of HK\$46,973,000 (2013: HK\$41,283,000) out of the total manager's fee of HK\$48,054,000 (2013: HK\$41,353,000) (the differences of HK\$1,081,000 (2013: HK\$70,000) are paid in cash), and acquisition fee paid in units of HK\$10,100,000 (2013: Nil);

- (b) change in fair value of investment properties of HK\$332,101,000 (2013: HK\$550,591,000), and change in fair value of derivative financial instruments of HK\$6,567,000 (2013: Nil);
  - (c) adjustment in respect of the difference between the accounting finance cost of HK\$69,281,000 (2013: HK\$41,967,000) less cash finance cost of HK\$48,059,000 (2013: HK\$31,841,000); and
  - (d) deferred tax provision of HK\$12,110,000 (2013: HK\$12,509,000).
- (ii) The distribution per unit of HK\$0.0815 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$0.0744) is calculated based on Prosperity REIT's income available for distribution of HK\$115,302,000 (six months ended 30 June 2013: HK\$103,568,000) over 1,414,948,774 units (30 June 2013: 1,391,683,715 units), representing units in issue as at 30 June 2014 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of 2014. The distribution was paid to unitholders on 8 September 2014.
- (iii) The distribution per unit of HK\$0.0815 for the six months ended 31 December 2014 (six months ended 31 December 2013: HK\$0.0751) is calculated based on Prosperity REIT's income available for distribution of HK\$116,062,000 (six months ended 31 December 2013: HK\$105,488,000) over 1,423,889,157 units (31 December 2013: 1,405,349,897 units), representing units in issue as at 31 December 2014 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year.

## Consolidated Statement of Financial Position

As at 31 December 2014

	<i>Note</i>	<i>2014</i> <i>HK\$'000</i>	<i>2013</i> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		9,890,000	8,518,000
<b>Current assets</b>			
Trade and other receivables	9	10,016	8,676
Bank balances and cash		65,184	58,096
Total current assets		75,200	66,772
<b>Total assets</b>		<b>9,965,200</b>	<b>8,584,772</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		560	17,024
Term loan	11	2,800,611	1,753,549
Deferred tax liabilities		157,342	145,232
Total non-current liabilities, excluding net assets attributable to unitholders		2,958,513	1,915,805
<b>Current liabilities</b>			
Trade and other payables	10	187,920	154,062
Amount due to related companies		12,253	8,778
Derivative financial instruments		6,567	-
Secured revolving loan	11	-	25,000
Provision for taxation		2,910	3,591
Manager's fee payable		12,289	10,646
Distribution payable		116,062	105,488
Total current liabilities		338,001	307,565
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>3,296,514</b>	<b>2,223,370</b>
<b>Net assets attributable to unitholders</b>		<b>6,668,686</b>	<b>6,361,402</b>
<b>Units in issue ('000)</b>	12	<b>1,419,635</b>	<b>1,396,178</b>
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	13	<b>4.70</b>	<b>4.57</b>

## Notes

### (1) General:

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on the Stock Exchange since 16 December 2005. Prosperity REIT is governed by the Trust Deed made between the REIT Manager and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the “**Group**”) is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

#### Application of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”)

In the current year, the Group has applied the following new and amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) that are mandatorily effective for accounting period that begins on or after 1 January 2014:

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

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

## **New and revised HKFRSs issued but not effective**

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 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>5</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>6</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>5</sup>

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

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

## **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 further amended 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 of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at 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 to be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was 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. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

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

### **Annual Improvements to HKFRSs 2011-2013 Cycle**

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which include the amendments to HKAS 40 to clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The REIT Manager anticipates that the application of these amendments in the future will not have a material effect on the Group’s consolidated financial statements.

## (2) Significant Accounting Policies:

### Basis of preparation of financial statements

The consolidated financial statements are presented in Hong Kong dollars, which is also

the functional currency of Prosperity REIT.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the REIT Code.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at revalued amount or fair values, as explained in the accounting policies set out below.

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

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

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

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

The 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 consolidated financial statements have been prepared on a going concern basis.

#### Basis of consolidation

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

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

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Prosperity REIT gains control until the date when Prosperity REIT ceases to control the subsidiary.

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

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

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

(3) Revenue:

	<i>2014</i> <i>HK\$'000</i>	<i>2013</i> <i>HK\$'000</i>
Gross rental from investment properties:		
Rental income	326,229	271,598
Car park income	24,011	20,642
	<u>350,240</u>	<u>292,240</u>
Rental related income	53,173	49,643
	<u>403,413</u>	<u>341,883</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in eight office (2013: seven), commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street (acquired on 22 January 2014), a portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a 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.

*For the year ended 31 December 2014*

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip street	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue in Hong Kong	121,851	79,310	33,586	21,983	56,135	43,082	33,795	13,671	403,413
Segment profit	100,990	62,728	25,019	14,813	41,998	30,602	25,602	10,304	312,056
Interest income									1
Manager's fee									(48,054)
Trust and other expenses									(22,139)
Change in fair value of investment properties									332,101
Change in fair value of derivative financial instruments									(6,567)
Finance costs									(69,281)
Profit before taxation and transactions with unitholders									498,117

For the year ended 31 December 2013

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue in Hong Kong	113,754	72,787	22,194	49,661	39,909	30,981	12,597	341,883
Segment profit	91,409	58,363	16,942	37,254	30,103	23,431	9,429	266,931
Interest income								25
Manager's fee								(41,353)
Trust and other expenses								(9,834)
Change in fair value of investment properties								550,591
Finance costs								(41,967)
Profit before taxation and transactions with unitholders								724,393

(5) Trust and other expenses:

	<i>2014</i> <i>HK\$'000</i>	<i>2013</i> <i>HK\$'000</i>
Acquisition expenses	3,900	2,505
Acquisition fee (paid in units)	10,100	-
Audit fee	262	212
Back-office support service fee	59	52
Bank charges	1,277	1,215
Legal and professional fees	764	130
Public relations-related expenses	286	505
Registrar fee	602	600
Trust administrative expenses	2,028	2,126
Trustee's fee	2,861	2,489
	<u>22,139</u>	<u>9,834</u>

(6) Finance costs:

	<i>2014</i> <i>HK\$'000</i>	<i>2013</i> <i>HK\$'000</i>
Interest expense on		
Secured term loans	44,753	28,255
Unsecured term loan	8,581	-
Equalisation of interest expense through cashflow hedges	13,655	13,457
	<u>66,989</u>	<u>41,712</u>
Secured revolving loan	2,292	255
	<u>69,281</u>	<u>41,967</u>

(7) Taxation:

	<i>2014</i> <i>HK\$'000</i>	<i>2013</i> <i>HK\$'000</i>
Current tax	19,752	16,353
Over-provision in prior year	(238)	(198)
Deferred tax	12,110	12,509
	<u>31,624</u>	<u>28,664</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profits tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates.

- (8) The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$466,493,000 (2013: HK\$695,729,000) by the weighted average of 1,413,401,652 (2013: 1,391,911,584) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

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

(9) Trade and other receivables:

	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	375	633
Deposit and prepayments	9,641	8,043
	<u>10,016</u>	<u>8,676</u>

Ageing analysis of the Group's trade receivables is as follows:

	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	374	338
2 – 3 months	1	295
	<u>375</u>	<u>633</u>

(10) Trade and other payables:

	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,874	914
Tenants' deposits		
- Outside parties	135,014	111,092
- Related parties	590	425
Rental received in advance		
- Outside parties	3,117	2,555
Other payables	46,325	39,076
	<u>187,920</u>	<u>154,062</u>

Ageing analysis of the Group's trade payables is as follows:

	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	1,751	327
2 – 3 months	932	376
Over 3 months	191	211
	<u>2,874</u>	<u>914</u>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs.

The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$85,776,000 (2013: HK\$71,636,000).

(11) Borrowings:

	<i>2014</i>	<i>2013</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured term loans	2,474,000	1,770,000
Unsecured term loan	380,000	-
Bank facilities origination fees	(53,389)	(16,451)
	<u>2,800,611</u>	<u>1,753,549</u>
Secured revolving loan	-	25,000
	<u>2,800,611</u>	<u>1,778,549</u>
Carrying amount repayable:		
Within one year	-	25,000
Within a period of more than one year but not exceeding five years	2,800,611	1,753,549
	<u>2,800,611</u>	<u>1,778,549</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
Balance as at 1 January 2013	1,379,867,101	2,894,125
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>16,311,096</u>	<u>40,512</u>
Balance as at 31 December 2013	1,396,178,197	2,934,637
Payment of acquisition fee through issuance of new units during the year	4,431,768	10,100
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>19,025,109</u>	<u>45,591</u>
Balance as at 31 December 2014	<u>1,419,635,074</u>	<u>2,990,328</u>

- (13) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$560,000 (2013: HK\$17,024,000), and the total number of 1,419,635,074 units in issue as at 31 December 2014 (1,396,178,197 units in issue as at 31 December 2013).
- (14) As at 31 December 2014, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$262,801,000 (2013: HK\$240,793,000) and the Group's total assets less current liabilities amounted to HK\$9,627,199,000 (2013: HK\$8,277,207,000).
- (15) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.
- (16) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.

*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.*