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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 2016

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**”). As at 31 December 2016, 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 2016 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2015 as follows:

Performance Highlights

	<u>Year ended</u> <u>31 Dec 2016</u>	<u>Year ended</u> <u>31 Dec 2015</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.1777	HK\$0.1768	0.5%

<u>Key financial figures</u>	<u>As at 31 Dec 2016</u>	<u>As at 31 Dec 2015</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$5.17	HK\$4.98	3.8%
Property valuation¹	HK\$10,777 million	HK\$10,419 million	3.4%
Gearing ratio²	26.4%	27.2%	(0.8%) ³

<u>Operation data</u>	<u>Year ended</u> <u>31 Dec 2016</u>	<u>Year ended</u> <u>31 Dec 2015</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$452.9 million	HK\$438.7 million	3.2%
Net property income	HK\$357.8 million	HK\$345.5 million	3.6%
Average effective unit rent	HK\$23.76 per sq.ft.	HK\$22.72 per sq.ft.	4.6%
Occupancy rate <i>(as at 31 Dec)</i>	96.1%	96.4%	(0.3%) ³
Cost-to-revenue ratio	21.0%	21.3%	(0.3%) ³

¹ The amount includes Harbourfront Landmark property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale (31 December 2015: Nil).

² This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

³ 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 2016. 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

Prosperity REIT has demonstrated its resilience in a challenging market during the Reporting Year. Our distributable income achieved stable growth, increased by 1.7% year-on-year (“YoY”) to HK\$258.4 million. This was attained on the back of steady growth in our net property income, which recorded a rise of 3.6% YoY, to HK\$357.8 million. Our appraised property valuation rose by 3.4% YoY, to HK\$10,777 million.

In light of these results, I am pleased to announce that our Unitholders will receive a total DPU of HK\$0.1777 for the Reporting Year, which represents a distribution yield of 5.8%⁴ as at 31 December 2016.

Market Review

The new US President has introduced new challenges to the dynamics of the global economic environment. The US economy, although still relatively fragile, has shown a positive growth momentum. Interest rate hike in December reflects the US Federal Reserve’s increasing confidence that the economy is on a path of sustainable rebound. As for China, although it has experienced an economic slowdown, it remains on track to meet the realistic economic targets set by the government in the year. In Hong Kong, while retail sales have yet to take off again, the local stock market continues to react against these mixed signals throughout the year.

Operations Review

Against this backdrop, we successfully achieved stable topline revenue across the Reporting Year, translating into growth of 3.2% and revenue of HK\$452.9 million. This was attributable to the positive rental reversion along with stable occupancy across the portfolio. By delivering excellent property management services and implementing diligent cost control measures, we were able to maintain our cost-to-revenue at a steady 21.0%.

⁴ Based on Prosperity REIT’s closing unit price of HK\$3.06 as at 30 December 2016.

Outlook

Hong Kong will elect a new Chief Executive in March, 2017. Although there are uncertainties about the new administration, support from the Mainland remains intact.

I remain cautiously optimistic about the outlook for Prosperity REIT. We have put hedging arrangements in place to mitigate the impact of the expected cycle of interest rate hikes. The acceleration of development in the Kowloon East district, where we have a strong portfolio over the years, is opening up new opportunities for us.

Our proven management approach, which combines a proactive stance with principles of prudence, has enabled us to generate stable and sustainable returns for our investors in different economic environments. I am confident that this approach will continue to serve us well in the year ahead.

Acknowledgements

Once again, I would like to extend my sincere thanks to all who have contributed to our success over the past year. Special thanks are due to my fellow Board members and the management team for their devoted efforts. Our staff members, tenants, service providers and business partners have all also played important roles in taking us forward in challenging times.

Last but not least, I would like to thank all our Unitholders for your continuing support and confidence in Prosperity REIT. Your guidance is vital to bring us to new heights.

Chiu Kwok Hung, Justin
Chairman

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

Hong Kong, 10 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 31 December 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 31 December 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 31 December 2016, was as follows:

	Location	Gross rentable area <i>sq. ft.</i>	No. of car park spaces	Valuation* <i>HK\$ million</i>	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	3,168	96.1%
Prosperity Millennia Plaza	North Point	217,955	43	2,043	96.6%
9 Chong Yip Street	Kwun Tong	136,595	68	1,091	98.9%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	594	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,699	94.2%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,011	95.6%
Prosperity Center (portion)	Kwun Tong	149,253	105	854	93.1%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	317	98.2%
Total		1,352,174	498	10,777	96.1%

* The amount includes Harbourfront Landmark property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

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 96.1% was recorded as at 31 December 2016, 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 21.0%.

Investment Review

The REIT Manager will continue to implement its investment strategy prudently. We shall 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. However, if the REIT Manager considers that any property has reached a stage that offers limited scope for income growth, the REIT Manager may consider selling the property and using the proceeds from such sale to invest in new properties with better yield or growth potential.

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, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, the asset enhancement works were carried out at The Metropolis Tower. Asset enhancement initiatives will continue in 2017 across the portfolio, with prudently planned payback periods.

The Metropolis Tower

The Metropolis Tower is an established landmark in Hung Hom forming part of a 1.42 million sq. ft. development comprising of a Grade A office tower, a popular shopping mall, a hotel and serviced apartments. Surrounding public amenities include the Hong Kong Coliseum, The Hong Kong Polytechnic University and a cluster of renowned hotels and shopping malls.

The typical floor sanitary facilities were reviewed. The executive and common washrooms on the selected floors were renovated. A pantry was built. These initiatives enhanced the workplace environment for our tenants and increased the competitiveness of the building.

Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	107,679	20,327	128,006	102,294
Prosperity Millennia Plaza	75,588	13,599	89,187	73,724
9 Chong Yip Street	35,151	4,448	39,599	31,310
Commercial				
Harbourfront Landmark (portion)	23,200	6,460	29,660	24,225
Prosperity Place	66,838	276	67,114	53,455
Industrial/Office				
Trendy Centre	40,478	6,227	46,705	33,726
Prosperity Center (portion)	34,280	3,255	37,535	27,996
Industrial				
New Treasure Centre (portion)	13,254	1,866	15,120	11,117
Total	396,468	56,458	452,926	357,847

Revenue

During the Reporting Year, revenue improved to HK\$452.9 million, being HK\$14.2 million or 3.2% higher than that of 2015. The growth was attributable to rental reversion rate of 10.9% for the entire portfolio.

The revenue comprised HK\$396.5 million of rental and car park income, plus HK\$56.4 million of rental related income. Rental and car park income was HK\$13.8 million or 3.6% above that of 2015.

Net Property Income

For the Reporting Year, the net property income was HK\$357.8 million, exceeding that of 2015 by HK\$12.3 million or 3.6%. The cost-to-revenue ratio was 21.0%, which is lower than that of 2015.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$258.4 million, representing a total DPU of HK\$0.1777. 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\$17.0 million (equivalent to HK\$0.0117 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 2016 to 31 December 2016 is HK\$127.0 million, equivalent to a DPU of HK\$0.0871. The interim DPU from 1 January 2016 to 30 June 2016 was HK\$0.0906. The total DPU for the Reporting Year is HK\$0.1777, which represents a distribution yield of 5.8%⁵. The DPU increased 0.5% YoY.

The distribution for the half year from 1 July 2016 to 31 December 2016 will be paid on Friday, 7 April 2017.

Liquidity and Financing

As at 31 December 2016, Prosperity REIT had facilities in aggregate of HK\$3,300 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; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the “**HK\$800 Million Facility**”).

⁵ Based on Prosperity REIT's closing unit price of HK\$3.06 as at 30 December 2016.

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. HK\$20 million of the revolving credit facility was drawn as at 31 December 2016.

The HK\$800 Million Facility was fully drawn on 31 August 2016 to repay the banking facilities of HK\$784 million entered in January 2014.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2016, the interest costs for approximately 74% (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 facilities origination fees, as a percentage of Prosperity REIT's gross assets was 26.4% as at 31 December 2016, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 31.2% as at 31 December 2016.

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\$345.3 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	31 December 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Fair value at the beginning of the year	10,419,000	9,890,000
Additional expenditure	12,666	13,298
Increase in fair value of investment properties	345,334	515,702
Fair value at the end of the year	10,777,000*	10,419,000

* The amount includes Harbourfront Landmark property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

Charges on Assets

As at 31 December 2016, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,639.9 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 and the HK\$800 Million Facility.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 20,995,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and

procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “**Compliance Manual**”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with 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 Tuesday, 28 March 2017 to Thursday, 30 March 2017, 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 Monday, 27 March 2017. The payment date of the final distribution will be on Friday, 7 April 2017.

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 2016.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Sunday, 30 April 2017.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Tuesday, 9 May 2017. 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 2016

	<i>Note</i>	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Revenue	3	452,926	438,723
Property management fees		(10,858)	(10,447)
Property operating expenses		(84,221)	(82,797)
Total property operating expenses		(95,079)	(93,244)
Net property income		357,847	345,479
Interest income		24	68
Manager's fee		(53,426)	(51,196)
Trust and other expenses	5	(15,805)	(8,577)
Change in fair value of investment properties		345,334	515,702
Change in fair value of derivative financial instruments		45,242	(295)
Finance costs	6	(76,115)	(72,415)
Profit before taxation and transactions with unitholders		603,101	728,766
Taxation	7	(37,857)	(36,175)
Profit for the year, before transactions with unitholders		565,244	692,591
Distribution to unitholders		(258,362)	(254,083)
Profit for the year, after transactions with unitholders		306,882	438,508
Other comprehensive income (expense) – Item that may be reclassified subsequently to profit or loss:			
Change in fair value of cashflow hedge		-	(701)
Reclassification of hedging reserve to profit or loss		1,261	-
Other comprehensive income (expense) for the year		1,261	(701)
Total comprehensive income for the year, after transactions with unitholders		308,143	437,807
Income available for distribution to unitholders		258,362	254,083
Basic earnings per unit (HK\$)	8	0.39	0.48

Distribution Statement

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Profit for the year, before transactions with unitholders	565,244	692,591
Adjustments:		
Manager's fee	52,280	50,070
Change in fair value of investment properties	(345,334)	(515,702)
Change in fair value of derivative financial instruments	(45,242)	295
Finance costs	16,997	12,700
Deferred tax	14,417	14,129
	<hr/>	<hr/>
Income available for distribution (note (i))	258,362	254,083
Distributions to unitholders:		
HK\$0.0906 (2015: HK\$0.0871) per unit for the six months ended 30 June (note (ii))	131,372	124,771
HK\$0.0871 (2015: HK\$0.0897) per unit for the six months ended 31 December (note (iii))	126,990	129,312
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	258,362	254,083
	<hr/>	<hr/>
Total distribution per unit (HK\$)	0.1777	0.1768
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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\$52,280,000 (2015: HK\$50,070,000) out of the total manager's fee of HK\$53,426,000 (2015: HK\$51,196,000) (the differences of HK\$1,146,000 (2015: HK\$1,126,000) are paid in cash);

- (b) change in fair value of investment properties of HK\$345,334,000 (2015: HK\$515,702,000), and change in fair value of derivative financial instruments of HK\$45,242,000 (2015: HK\$295,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$76,115,000 (2015: HK\$72,415,000) less cash finance cost of HK\$59,118,000 (2015: HK\$59,715,000); and
- (d) deferred tax provision of HK\$14,417,000 (2015: HK\$14,129,000).
- (ii) The distribution per unit of HK\$0.0906 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$0.0871) is calculated based on Prosperity REIT's income available for distribution of HK\$131,372,000 (six months ended 30 June 2015: HK\$124,771,000) over 1,449,733,936 units (30 June 2015: 1,432,382,505 units), representing units in issue as at 30 June 2016 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 2016. The distribution was paid to unitholders on 12 September 2016.
- (iii) The distribution per unit of HK\$0.0871 for the six months ended 31 December 2016 (six months ended 31 December 2015: HK\$0.0897) is calculated based on Prosperity REIT's income available for distribution of HK\$126,990,000 (six months ended 31 December 2015: HK\$129,312,000) over 1,457,894,330 units (31 December 2015: 1,441,694,696 units), representing units in issue as at 31 December 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 last quarter of the relevant distribution year.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		10,183,000	10,419,000
Derivative financial instruments		38,436	-
		<u>10,221,436</u>	<u>10,419,000</u>
Current assets			
Trade and other receivables	9	39,332	8,803
Bank balances and cash		72,444	64,911
		<u>111,776</u>	<u>73,714</u>
Assets of a disposal group classified as held for sale	13	595,560	-
Total current assets		<u>707,336</u>	<u>73,714</u>
Total assets		<u><u>10,928,772</u></u>	<u><u>10,492,714</u></u>
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		56	8,123
Term loans	11	2,833,308	2,813,311
Deferred tax liabilities		175,489	171,471
		<u>3,008,853</u>	<u>2,992,905</u>
Total non-current liabilities, excluding net assets attributable to unitholders		<u>3,008,853</u>	<u>2,992,905</u>
Current liabilities			
Trade and other payables	10	212,564	188,531
Amount due to related companies		7,252	10,821
Secured revolving loan	11	20,000	-
Provision for taxation		1,861	2,293
Manager's fee payable		13,562	13,117
Distribution payable		126,990	129,312
		<u>382,229</u>	<u>344,074</u>
Liabilities directly associated with assets of a disposal group classified as held for sale	13	21,969	-
Total current liabilities		<u>404,198</u>	<u>344,074</u>
Total liabilities, excluding net assets attributable to unitholders		<u><u>3,413,051</u></u>	<u><u>3,336,979</u></u>
Net assets attributable to unitholders		<u><u>7,515,721</u></u>	<u><u>7,155,735</u></u>

Units in issue ('000)	12	1,453,669	1,436,854
		<hr/> <hr/>	
Net asset value per unit (HK\$) attributable to unitholders	14	5.17	4.98
		<hr/> <hr/>	

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 amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”)

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

The application of the new and amendments to 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 consolidated financial statements.

New and amendments to HKFRSs issued but not effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described as follow:

HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised

cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms 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 fair value through other comprehensive income. 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.

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 REIT Manager anticipates that the application of other new and amendments to HKFRSs, including HKFRS 9, 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.

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

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

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

The 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 the 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>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Gross rental from investment properties:		
Rental income	369,921	357,181
Car park income	26,547	25,510
	<hr/>	<hr/>
	396,468	382,691
Rental related income	56,458	56,032
	<hr/>	<hr/>
	<u>452,926</u>	<u>438,723</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in eight (2015: eight) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, 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 2016

	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	128,006	89,187	39,599	29,660	67,114	46,705	37,535	15,120	452,926
Segment profit	102,294	73,724	31,310	24,225	53,455	33,726	27,996	11,117	357,847
Interest income									24
Manager's fee									(53,426)
Trust and other expenses									(15,805)
Change in fair value of investment properties									345,334
Change in fair value of derivative financial instruments									45,242
Finance costs									(76,115)
Profit before taxation and transactions with unitholders									<u>603,101</u>

For the year ended 31 December 2015

	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	125,332	86,762	38,369	28,418	61,683	47,202	36,453	14,504	438,723
Segment profit	101,501	71,127	29,442	23,044	46,726	35,348	27,596	10,695	345,479
Interest income									68
Manager's fee									(51,196)
Trust and other expenses									(8,577)
Change in fair value of investment properties									515,702
Change in fair value of derivative financial instruments									(295)
Finance costs									(72,415)
Profit before taxation and transactions with unitholders									728,766

(5) Trust and other expenses:

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Acquisition expenses	6,895	-
Audit fee	204	208
Back-office support service fee	128	45
Bank charges	1,789	1,811
Legal and professional fees	579	511
Public relations-related expenses	303	412
Registrar fee	600	600
Trust administrative expenses	2,123	1,947
Trustee's fee	3,184	3,043
	<u>15,805</u>	<u>8,577</u>

(6) Finance costs:

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Interest expense on:		
Secured term loans	51,982	49,756
Unsecured term loan	11,686	9,118
Equalisation of interest expense through interest rate swaps	11,810	13,322
	<u>75,478</u>	<u>72,196</u>
Secured revolving loan	637	219
	<u>76,115</u>	<u>72,415</u>

(7) Taxation:

	<i>2016</i> <i>HK\$'000</i>	<i>2015</i> <i>HK\$'000</i>
Current tax	23,871	22,214
Over-provision in prior year	(431)	(168)
Deferred tax	14,417	14,129
	<u>37,857</u>	<u>36,175</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\$565,244,000 (2015: HK\$692,591,000) by the weighted average of 1,449,792,732 (2015: 1,432,538,133) 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>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	1,058	311
Deposit receivable for assets classified as held for sale	30,000	-
Deposit and prepayments	8,274	8,492
	<u>39,332</u>	<u>8,803</u>

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>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	129	62
2 – 3 months	929	249
	<u>1,058</u>	<u>311</u>

(10) Trade and other payables:

	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,082	1,357
Tenants' deposits		
- Outside parties	131,395	136,545
- Related parties	774	768
Rental received in advance		
- Outside parties	4,195	3,359
Deposits received as earnest money	30,000	-
Other payables	44,118	46,502
	<u>212,564</u>	<u>188,531</u>

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>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	421	475
2 – 3 months	1,055	551
Over 3 months	606	331
	<u>2,082</u>	<u>1,357</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\$84,789,000 (2015: HK\$94,173,000).

(11) Borrowings:

	<i>2016</i>	<i>2015</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured term loans	2,070,000	2,474,000
Unsecured term loan	800,000	380,000
Bank facility origination fees	(36,692)	(40,689)
	<u>2,833,308</u>	<u>2,813,311</u>
Secured revolving loan	20,000	-
	<u>2,853,308</u>	<u>2,813,311</u>
Carrying amount repayable:		
Within one year	20,000	-
Within a period of more than one year but not exceeding two years	-	377,366
Within a period of more than two years but not exceeding five years	2,833,308	2,435,945
	<u>2,853,308</u>	<u>2,813,311</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
Balance as at 1 January 2015	1,419,635,074	2,990,328
Payment of manager's base fee and variable fee through issuance of new units during the year	<u>17,218,841</u>	<u>49,242</u>
Balance as at 31 December 2015	1,436,853,915	3,039,570
Payment of manager's base fee and variable fee through issuance of new units during the year	<u>16,815,315</u>	<u>51,843</u>
Balance as at 31 December 2016	<u>1,453,669,230</u>	<u>3,091,413</u>

(13) Assets of a disposal group classified as held for sale and related liabilities:

On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager entered into a share purchase agreement with an independent third party (the "**Purchaser**") in respect of the sale of the Harbourfront Landmark Property through its holding company, Harbour Champ Limited owned by Prosperity REIT. The consideration payable by the Purchaser for the purchase of the sale share and assignment of the loans shall be the disposal amount of HK\$885,741,500, subject to the adjustment by reference to the adjusted net asset value as set out in the completion statement pursuant to the share purchase agreement. The disposal has been completed on 3 March 2017.

On 8 December 2016, a letter of intent was signed by the REIT Manager and the Purchaser for the proposed disposal. An amount of HK\$30,000,000 was received and held by the Trustee's Solicitors as earnest money which was included as deposit receivable for assets classified as held for sale with the corresponding amount included in deposit received as set out in notes 9 and 10 respectively. The REIT Manager considered that the assets and liabilities of Harbour Champ Limited should be classified as held-for-sale as at 31 December 2016 in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations on the basis that the disposal is highly probable and expected to be completed in 2017.

Details of the assets and liabilities of Harbour Champ Limited as at 31 December 2016, which have been classified as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with assets of a disposal group classified as held for sale", are as follows:

	<i>HK\$'000</i>
<i>Assets classified as held for sale</i>	
Non-current assets	
Investment properties	594,000
Current Assets	
Trade and other receivables	114
Bank balances and cash	1,446
	1,560
Total assets of a disposal group classified as held for sale	595,560

Liabilities directly associated with assets of a disposal group classified as held for sale

Non-current liabilities

Deferred tax liabilities 10,399

Current liabilities

Trade and other payables 10,745

Amount due to related companies 825

11,570

Total Liabilities directly associated with assets of a disposal group classified as held for sale

21,969

Net assets directly associated with the disposal group (note)

573,591

Note: The above amounts do not include the indebtedness owing to group companies, which will be assigned to the Purchaser at completion.

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve which is nil as at 31 December 2016 (2015: HK\$1,261,000), and the total number of 1,453,669,230 units in issue as at 31 December 2016 (1,436,853,915 units in issue as at 31 December 2015).
- (15) At the end of the Reporting Year, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$303,138,000 (2015: net current liabilities of HK\$270,360,000) and the Group's total assets less current liabilities amounted to HK\$10,524,574,000 (2015: HK\$10,148,640,000).
- (16) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.
- (17) 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.