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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**

### **2017 INTERIM RESULTS ANNOUNCEMENT**

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

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2017 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2016 as follows:

### **Performance Highlights**

	<b><u>Six months ended</u></b> <b><u>30 Jun 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>Six months ended</u></b> <b><u>30 Jun 2016</u></b> <b><u>(unaudited)</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Distribution per unit</b> <b>(“DPU”)</b>	HK\$0.0915	HK\$0.0906	1.0%

<b><u>Key financial figures</u></b>	<b><u>As at 30 Jun 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>As at 31 Dec 2016</u></b> <b><u>(audited)</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Net asset value per unit</b>	HK\$5.42	HK\$5.17	4.8%
<b>Property valuation</b>	HK\$10,335 million	HK\$10,777 million <sup>1</sup>	(4.1%)
<b>Gearing ratio<sup>2</sup></b>	25.4%	26.4%	(1.0%) <sup>3</sup>

<b><u>Operation data</u></b>	<b><u>Six months ended</u></b> <b><u>30 Jun 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>Six months ended</u></b> <b><u>30 Jun 2016</u></b> <b><u>(unaudited)</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Revenue</b>	HK\$222.5 million	HK\$222.9 million	(0.2%)
<b>Net property income</b>	HK\$177.0 million	HK\$176.0 million	0.6%
<b>Average effective unit rent</b>	HK\$24.11 per sq. ft.	HK\$23.47 per sq. ft.	2.7%
<b>Occupancy rate</b> <i>(as at 30 June)</i>	96.7%	96.7%	-
<b>Cost-to-revenue ratio</b>	20.4%	21.1%	(0.7%) <sup>3</sup>

<sup>1</sup> This valuation as at 31 December 2016 includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

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

<sup>3</sup> Absolute change.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 30 June 2017, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 30 June 2017, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2017, was as follows:

	<b>Location</b>	<b>Gross rentable area <i>sq. ft.</i></b>	<b>No. of car park spaces</b>	<b>Valuation <i>HK\$ million</i></b>	<b>Occupancy rate</b>
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,213	98.5%
Prosperity Millennium Plaza	North Point	217,955	43	2,082	97.5%
9 Chong Yip Street	Kwun Tong	136,595	68	1,092	93.8%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,707	94.1%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,041	97.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	876	100.0%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	324	92.4%
<b>Total</b>		<u>1,275,153</u>	<u>498</u>	<u>10,335</u>	<u>96.7%</u>

During the six months ended 30 June 2017 (the “Reporting Period”), U.S. Federal Reserve raised interest rate twice while UK and France conducted national elections of their government and president respectively. The market sentiment was cautious at the beginning of 2017, yet it was gradually relieved due to a robust economy in the U.S. and a waning political risk in Europe. China witnessed satisfactory GDP growth of 6.9% with moderate inflation rate.

Under the backdrop of a stabilizing global economy, Hong Kong retail market regained momentum in terms of total spending. At the same time, residential market measured by various property price indexes reached a record high. Two major commercial office land sites, namely

the Murray Road site in Central and the Kai Tak site in Kowloon East, were sold with a record breaking price in Hong Kong, indicating an optimistic forecast at the office sector in both traditional CBD and CBD2 areas.

Office rental level in core districts such as Central, Wan Chai and Causeway Bay maintained steady growth by the strong demand of mainland Chinese firms. The new Grade A office buildings attracted high quality tenants to move into decentralized districts such as Kowloon East, Wong Chuk Hang and Island East. Kowloon East is progressively transforming into a business district leveraging on the government policy. During the Reporting Period, Prosperity REIT achieved a rental reversion rate of 8.1%, complemented with a stable occupancy rate of 96.7%. The average effective unit rent of Prosperity REIT's portfolio recorded a growth of 2.7% to HK\$24.11 per sq. ft.. This solid performance was attributable to our proactive leasing strategies, the premium quality of our properties, as well as our attentive property management services.

Meanwhile, the REIT Manager has implemented effective measures to increase its operational efficiency, enabling Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 20.4% for the Reporting Period.

As at 30 June 2017, Prosperity REIT's gearing ratio remained at a healthy level of 25.4% (31 December 2016: 26.4%), providing us with a strong balance sheet to take advantage of future growth opportunities.

### **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, the REIT Manager also reviews its portfolio from time to time and may consider different opportunities including asset disposal. The disposal of the Harbourfront Landmark Property was completed on 3 March 2017 and the disposal gain is about HK\$299.7 million. The disposal gain will be used to enhance value for the unitholders.

### **Asset Enhancement**

Asset enhancement has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties will also be a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, an asset enhancement work was carried out at The Metropolis Tower.

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

## **Outlook**

For the remainder of 2017, the global economy is expected to perform well on the back of the stable performance in the first half year. In U.S., supported by the strong sign in employment and declining inflation pressure, the Federal Reserve is anticipated to reduce its balance sheet scale gradually.

In China, the People Bank of China continues its moderate stance of tight liquidity condition. However, 2017 GDP growth is expected to meet the government's target.

In Hong Kong, Chinese enterprises continue to boost up the office leasing market with strong demand for office space. Moreover, the commencement of the bond connect scheme and the one belt one road initiative will be supportive to Hong Kong economic growth in the medium term.

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

## Financial Review

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

	<b>Turnover</b> <i>HK\$'000</i>	<b>Rental related income</b> <i>HK\$'000</i>	<b>Revenue</b> <i>HK\$'000</i>	<b>Net property income</b> <i>HK\$'000</i>
<b>Grade A Office</b>				
The Metropolis Tower	56,731	10,038	66,769	55,339
Prosperity Millennia Plaza	37,869	6,818	44,687	37,002
9 Chong Yip Street	17,437	2,132	19,569	15,560
<b>Commercial</b>				
Harbourfront Landmark (portion) *	4,277	1,479	5,756	4,880
Prosperity Place	33,830	256	34,086	25,513
<b>Industrial/Office</b>				
Trendy Centre	21,207	3,093	24,300	17,837
Prosperity Center (portion)	18,051	1,618	19,669	15,176
<b>Industrial</b>				
New Treasure Centre (portion)	6,704	969	7,673	5,734
<b>Total</b>	<b>196,106</b>	<b>26,403</b>	<b>222,509</b>	<b>177,041</b>

\* Up to the completion date of the disposal of Harbourfront Landmark Property on 3 March 2017.

### Revenue

During the Reporting Period, revenue, comprised HK\$196.1 million of rental and car park income plus HK\$26.4 million of rental related income, slightly decreased to HK\$222.5 million, being HK\$0.4 million or 0.2% lower than the last corresponding half year. The drop was mainly due to the revenue loss in Harbourfront Landmark Property of HK\$ 9.1 million as a result of its disposal on 3 March 2017.

### Net Property Income

For the Reporting Period, the net property income was HK\$177.0 million, exceeding that of the last corresponding half year by HK\$1.0 million or 0.6%. The growth was mainly attributable to the rental reversion rate of 8.1% for the entire portfolio. The cost-to-revenue ratio was 20.4%.

### Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$134.1 million, representing a DPU of HK\$0.0915. This represents an annualized distribution yield of 5.5%<sup>4</sup>. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$5.5 million (equivalent to HK\$0.0038 per unit), which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the Reporting Period.

### Distribution

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

### Liquidity and Financing

As at 30 June 2017, 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 a margin of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the "**HK\$800 Million Facility**").

In relation to the HK\$2,500 Million Facilities, the term loan facility of HK\$2,070 million was fully drawn on 28 November 2014. None of the revolving credit facility was drawn as at 30 June 2017.

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<sup>4</sup> Based on Prosperity REIT's closing unit price of HK\$3.32 as at 30 June 2017.

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

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2017, the interest costs for approximately 74% (31 December 2016: 74%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 25.4% as at 30 June 2017 (31 December 2016: 26.4%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 29.9% as at 30 June 2017 (31 December 2016: 31.2%).

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

#### Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$146.3 million, based on a professional valuation performed by an independent valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,183,000	10,419,000
Additional expenditure	5,664	12,666
Change in fair value of investment properties	146,336	345,334
Transfer to assets of a disposal group		
classified as held for sale	-	(594,000)*
Fair value at the end of the period/year	<u>10,335,000</u>	<u>10,183,000</u>

\* *The amount represents Harbourfront Landmark Property which was transferred to assets of a disposal group classified as held for sale.*

### Charges on Assets

As at 30 June 2017, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,712.7 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and certain of its subsidiaries have provided guarantees for the HK\$2,500 Million Facilities and HK\$800 Million Facility.

### **EMPLOYEES**

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

### **REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Period, other than the disposal of 12,107,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

### **CORPORATE GOVERNANCE**

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

### **CLOSURE OF REGISTER OF UNITHOLDERS**

The register of unitholders will be closed from Monday, 4 September 2017 to Thursday, 7 September 2017, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 1 September 2017. The payment date of interim distribution will be on Tuesday, 12 September 2017.

## **REVIEW OF INTERIM RESULTS**

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

## **PUBLIC FLOAT**

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2017.

## **ISSUANCE OF INTERIM REPORT**

The Interim Report of Prosperity REIT for the Reporting Period will be published on the websites of the Stock Exchange and Prosperity REIT and will be dispatched or sent to unitholders on or before Thursday, 31 August 2017.

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

*For the six months ended 30 June 2017*

		<i>Six months ended 30 June</i>	
		<i>2017</i>	<i>2016</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Revenue</b>	3	222,509	222,925
Property management fees		(5,452)	(5,345)
Property operating expenses		(40,016)	(41,627)
Total property operating expenses		<u>(45,468)</u>	<u>(46,972)</u>
<b>Net property income</b>		177,041	175,953
Interest income		2,654	23
Manager's fee		(25,661)	(26,328)
Trust and other expenses	5	(4,520)	(4,906)
Gain on disposed property company	13	299,695	-
Change in fair value of investment properties		146,336	264,089
Change in fair value of derivative financial instruments		(31,487)	(9,535)
Finance costs	6	<u>(35,089)</u>	<u>(35,341)</u>
<b>Profit before taxation and transactions with unitholders</b>		528,969	363,955
Taxation	7	<u>(18,969)</u>	<u>(16,965)</u>
<b>Profit for the period, before transactions with unitholders</b>		510,000	346,990
Distribution to unitholders		<u>(134,096)</u>	<u>(131,372)</u>
<b>Profit for the period, after transactions with unitholders</b>		375,904	215,618
<b>Other comprehensive income – item that may be subsequently classified to profit or loss:</b>			
Reclassification of hedging reserve to profit or loss		-	1,261
Other comprehensive income for the period		-	1,261
<b>Total comprehensive income for the period, after transactions with unitholders</b>		<u>375,904</u>	<u>216,879</u>
<b>Income available for distribution to unitholders</b>		<u>134,096</u>	<u>131,372</u>
<b>Basic earnings per unit (HK\$)</b>	8	<u>0.35</u>	<u>0.24</u>

## DISTRIBUTION STATEMENT

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Profit for the period, before transactions with unitholders</b>	<b>510,000</b>	<b>346,990</b>
<b>Adjustments:</b>		
Manager's fee	25,093	25,758
Gain on disposed property company	(299,695)	-
Change in fair value of investment properties	(146,336)	(264,089)
Change in fair value of derivative financial instruments	31,487	9,535
Finance costs	5,531	6,333
Deferred tax	8,016	6,845
<b>Income available for distribution (note (i))</b>	<b>134,096</b>	<b>131,372</b>
<b>Distributions to unitholders:</b>		
For the six months ended 30 June	134,096	131,372
<b>Distribution per unit (HK\$) (note (ii))</b>	<b>0.0915</b>	<b>0.0906</b>

Notes:

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

These Adjustments for the half year comprise:

- (a) manager's fee paid and payable in units of HK\$25,093,000 (2016: HK\$25,758,000) out of the total manager's fee of HK\$25,661,000 (2016: HK\$26,328,000) (the difference of HK\$568,000 (2016: HK\$570,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$146,336,000 (2016: HK\$264,089,000), change in fair value of derivative financial instruments of HK\$31,487,000 (2016: HK\$9,535,000), and a gain on disposed property company of HK\$299,695,000 (2016: Nil);

(c) adjustment in respect of the difference between the accounting finance cost of HK\$35,089,000 (2016: HK\$35,341,000) and the cash finance cost of HK\$29,558,000 (2016: HK\$29,008,000); and

(d) deferred tax provision of HK\$8,016,000 (2016: HK\$6,845,000).

(ii) The DPU of HK\$0.0915 (2016: HK\$0.0906) is calculated based on Prosperity REIT's income available for distribution of HK\$134,096,000 (2016: HK\$131,372,000) over 1,465,548,870 units (2016: 1,449,733,936 units), representing units in issue as at 30 June 2017 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of the relevant distribution period.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2017*

		<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	13	10,335,000	10,183,000
Derivative financial instruments		12,866	38,436
		10,347,866	10,221,436
<b>Current assets</b>			
Trade and other receivables	9	9,794	39,332
Bank deposit with maturity date over three months		50,000	-
Bank balances and cash		891,233	72,444
		951,027	111,776
Assets of a disposal group classified as held for sale	13	-	595,560
Total current assets		951,027	707,336
<b>Total assets</b>		11,298,893	10,928,772
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		5,973	56
Term loans	11	2,838,839	2,833,308
Deferred tax liabilities		181,461	175,489
		3,026,273	3,008,853
Total non-current liabilities, excluding net assets attributable to unitholders		3,026,273	3,008,853
<b>Current liabilities</b>			
Trade and other payables	10	186,282	212,564
Amounts due to related companies		9,150	7,252
Secured revolving loan	11	-	20,000
Provision for taxation		12,814	1,861
Manager's fee payable		12,838	13,562
Distribution payable		134,096	126,990
		355,180	382,229

Liabilities directly associated with assets of a disposal group classified as held for sale	13	-	21,969
Total current liabilities		355,180	404,198
<b>Total liabilities, excluding net assets attributable to unitholders</b>		3,381,453	3,413,051
<b>Net assets attributable to unitholders</b>		7,917,440	7,515,721
<b>Units in issue ('000)</b>	12	1,461,840	1,453,669
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	14	5.42	5.17

## Notes

### (1) Principal Accounting Policies:

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

The accounting policies used in these condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016 except as described below.

In the current period, the Group has applied the following amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

## **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 which are relevant to the Group are:

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 these new and amendments to HKFRSs, including HKFRS 9, and interpretation in the future will not have a material effect on the Group's condensed consolidated financial statements.

(2) Basis of preparation:

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

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

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

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	182,389	182,353
Car park income	13,717	12,904
	<hr/>	<hr/>
	196,106	195,257
Rental related income	26,403	27,668
	<hr/>	<hr/>
	222,509	222,925
	<hr/> <hr/>	<hr/> <hr/>

(4) Segment information:

During the Reporting Period, Prosperity REIT invested in eight office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennium Plaza, 9 Chong Yip Street, portion of Harbourfront Landmark (until the completion date of its disposal on 3 March 2017), Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

## Six months ended 30 June 2017 (unaudited)

	The Metropolis Tower <i>HK\$'000</i>	Prosperity Millennia Plaza <i>HK\$'000</i>	9 Chong Yip Street <i>HK\$'000</i>	Harbourfront Landmark (portion)* <i>HK\$'000</i>	Prosperity Place <i>HK\$'000</i>	Trendy Centre <i>HK\$'000</i>	Prosperity Center (portion) <i>HK\$'000</i>	New Treasure Centre (portion) <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue in Hong Kong	66,769	44,687	19,569	5,756	34,086	24,300	19,669	7,673	222,509
Segment profit	55,339	37,002	15,560	4,880	25,513	17,837	15,176	5,734	177,041
Interest income									2,654
Manager's fee									(25,661)
Trust and other expenses									(4,520)
Gain on disposed property company									299,695
Change in fair value of investment properties									146,336
Change in fair value of derivative financial instruments									(31,487)
Finance costs									(35,089)
Profit before taxation and transactions with unitholders									<u>528,969</u>

\* The Harbourfront Landmark Property was disposed on 3 March 2017 as set out in note 13

## Six months ended 30 June 2016 (unaudited)

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

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	130	118
Back-office support service fee	27	36
Bank charges	852	991
Legal and professional fees	435	631
Public relations and related expenses	162	174
Registrar fee	300	300
Trust administrative expenses	1,066	1,097
Trustee's fee	1,548	1,559
	<hr/>	<hr/>
	4,520	4,906
	<hr/>	<hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Secured term loans	23,150	25,150
Unsecured term loan	7,405	4,599
Equalisation of interest expense through interest rate swaps	4,522	5,539
	<hr/>	<hr/>
	35,077	35,288
Secured revolving loan	12	53
	<hr/>	<hr/>
	35,089	35,341
	<hr/>	<hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	10,953	10,120
Deferred tax	8,016	6,845
	<hr/>	<hr/>
	18,969	16,965
	<hr/>	<hr/>

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

(8) Basic earnings per unit:

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$510,000,000 (2016: HK\$346,990,000) by the weighted average of 1,461,739,065 (2016: 1,445,799,439) units in issue during the period, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution period.

(9) Trade and other receivables:

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	940	1,061
Less: allowance for doubtful debts	(123)	(3)
	<hr/> 817	<hr/> 1,058
Deposit receivable for assets classified as held for sale (note 13)	-	30,000
Deposits, prepayments and other receivables	<hr/> 8,977	<hr/> 8,274
	<hr/> <b>9,794</b>	<hr/> <b>39,332</b>

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

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	90	129
2 – 3 months	727	929
	<hr/> 817	<hr/> 1,058

(10) Trade and other payables:

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,697	2,082
Deposits received as earnest money (note 13)	-	30,000
Tenants' deposits		
- Outside parties	134,646	131,395
- Related parties	774	774
Rental received in advance		
- Outside parties	5,009	4,195
Other payables	43,156	44,118
	<hr/>	
	186,282	212,564
	<hr/> <hr/>	

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

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	1,169	421
2 – 3 months	1,027	1,055
Over 3 months	501	606
	<hr/>	
	2,697	2,082
	<hr/> <hr/>	

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of the Reporting Period based on the lease terms amounted to HK\$81,929,000 as at 30 June 2017 (31 December 2016: HK\$84,789,000).

(11) Borrowings:

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loans	2,070,000	2,070,000
Unsecured term loan	800,000	800,000
Bank facility origination fees	(31,161)	(36,692)
	<hr/> 2,838,839	<hr/> 2,833,308
Secured revolving loan	-	20,000
	<hr/> 2,838,839	<hr/> 2,853,308
<b>Carrying amount repayable:</b>		
Within one year	-	20,000
Within a period of more than one year but not exceeding five years	2,838,839	2,833,308
	<hr/> 2,838,839	<hr/> 2,853,308

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2016	1,436,853,915	3,039,570
Payment of Manager's base fee and variable fee through issuance of new units during the year	16,815,315	51,843
Balance as at 31 December 2016	<hr/> 1,453,669,230	<hr/> 3,091,413
Payment of Manager's base fee and variable fee through issuance of new units during the period	8,171,223	25,815
Balance as at 30 June 2017	<hr/> 1,461,840,453	<hr/> 3,117,228

(13) Investment properties:

	<i>30 Jun 2017</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2016</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,183,000	10,419,000
Additional expenditure	5,664	12,666
Change in fair value of investment properties	146,336	345,334
Transfer to assets of a disposal group classified as held for sale	-	(594,000)
Fair value at the end of the period/year	<u>10,335,000</u>	<u>10,183,000</u>

On 8 December 2016, a letter of intent was signed by the REIT Manager (in its capacity as manager of Prosperity REIT) and an independent third party (“the **Purchaser**”) in respect of the sale of the Harbourfront Landmark Property through disposal of its holding company, Harbour Champ Limited. 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 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager entered into the relevant share purchase agreement with the Purchaser and the disposal was completed on 3 March 2017 for a cash consideration of HK\$877,378,000 (representing to the gross consideration of HK\$885,741,000 minus the adjusted net asset value of Harbour Champ Limited of HK\$8,363,000) as at completion date of the disposal. The disposal resulted in a gain of approximately HK\$299,695,000, mainly representing fair value change of investment property as a result of such transaction.

Analysis of assets and liabilities over which control was lost:

	<i>HK\$'000</i>
Investment properties	594,000
Trade and other receivables	240
Trade and other payables	(10,141)
Deferred tax liabilities	(12,443)
Net assets disposed	<u>571,656</u>

Gain on fair value change of investment property through the disposal of a property company is determined as follows:

	<i>HK\$'000</i>
Consideration received	877,378
Less: Transaction cost incurred	(1,598)
Less: Divestment fee	(4,429)
Less: Net assets disposal	(571,656)
	<hr/>
	299,695
	<hr/>

Net cash inflow arising on disposal is as follows:

	<i>HK\$'000</i>
Net Proceeds from disposal	871,351
	<hr/>

During the six months period ended 30 June 2017, HK\$5,756,000 out of the Group's revenue and HK\$2,690,000 out of the Group's profit were attributable to the subsidiary disposed.

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,461,840,453 units in issue as at 30 June 2017 (31 December 2016: 1,453,669,230 units).
- (15) At the end of the Reporting Period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$595,847,000 (31 December 2016: HK\$303,138,000) and the Group's total assets less current liabilities amounted to HK\$10,943,713,000 (31 December 2016: HK\$10,524,574,000).
- (16) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager, and by Prosperity REIT's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 11 August 2017

*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.*