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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 2015**

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 2015, 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 2015 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2014 as follows:

### **Performance Highlights**

	<b><u>Year ended</u></b> <b><u>31 Dec 2015</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2014</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Distribution per unit</b> <b>(“DPU”)</b>	HK\$0.1768	HK\$0.1630	8.5%

<b><u>Key financial figures</u></b>	<b><u>As at 31 Dec 2015</u></b>	<b><u>As at 31 Dec 2014</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Net asset value per unit</b>	HK\$4.98	HK\$4.70	6.0%
<b>Property valuation</b>	HK\$10,419 million	HK\$9,890 million	5.3%
<b>Gearing ratio</b> <sup>1</sup>	27.2%	28.6%	(1.4%) <sup>2</sup>

<b><u>Operation data</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2015</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2014</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Revenue</b>	HK\$438.7 million	HK\$403.4 million	8.8%
<b>Net property income</b>	HK\$345.5 million	HK\$312.1 million	10.7%
<b>Average effective unit rent</b>	HK\$22.72 per sq. ft.	HK\$20.81 per sq. ft.	9.2%
<b>Occupancy rate</b> <i>(as at 31 Dec)</i>	96.4%	97.7%	(1.3%) <sup>2</sup>
<b>Cost-to-revenue ratio</b>	21.3%	22.6%	(1.3%) <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 2015. 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**

Amidst an uncertain global stock market and the slower economic growth in Mainland China, Prosperity REIT achieved a satisfactory result in the Reporting Year.

During the year, our distributable income rose by 9.8% year-on-year (“YoY”) to HK\$254.1 million with the steady performance of Prosperity REIT’s portfolio and the continuous benefit from the resilient decentralized office market. Net asset value per unit recorded a growth of 6.0% YoY to HK\$4.98. Buoyed by the REIT Manager devoted continuous effort in asset enhancement and proactive leasing strategies, the appraised property valuation rose by 5.3% YoY to HK\$10,419 million.

In light of these results, I am pleased to announce that our Unitholders will receive a total DPU of HK\$0.1768, representing an increase of 8.5% YoY and an attractive distribution yield of 6.3%<sup>3</sup> as at 31 December 2015.

## **Market Review**

In general, market conditions both in Hong Kong and across the globe remained weak during the Reporting Year. Global economic growth was dampened by the slowdown in China’s economic growth, the refugee problem in European countries and so forth. In Hong Kong, the stock market tumbled in tandem with the stock market volatility in China. The decline in tourism arrivals and retail sales downturn led to an estimated 2.4% annual GDP growth.

## **Operations Review**

During the Reporting Year, we achieved solid revenue growth by 8.8% YoY to HK\$438.7 million through the stable positive rental reversions across the portfolio. Meanwhile, our last acquired property, 9 Chong Yip Street in Kwun Tong, after completion of the planned asset enhancement works, has outperformed our rent target in the Reporting Year. The acquisition had brought forth additional distributable income to our Unitholders. Portfolio occupancy rate remained stable at 96.4% as at 31 December 2015, despite the challenging market conditions. Net property income increased by 10.7% YoY to HK\$345.5 million, thanks to the proactive

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<sup>3</sup> Based on Prosperity REIT’s closing unit price of HK\$2.79 as at 31 December 2015.

operating cost saving strategies and first-rate property management services. Through our energy-saving asset enhancement initiatives such as the replacement of some existing chiller plants with more energy-efficient models, we were able to maintain a stable cost-to-revenue ratio at 21.3%. It is the REIT manager's ongoing endeavours to keep our operating cost efficient.

### **Outlook**

Looking ahead in year 2016, Prosperity REIT will continue to face challenges, arising from uncertainties in Hong Kong and the global economy. A slower economic growth in Mainland China is expected and its impact is yet to be reflected in Hong Kong. Offsetting these concerns, our portfolio is primarily located in Kowloon East decentralized area, which is progressively transforming into a mature commercial hub, will continue to be attractive to corporations looking for high quality office space. Barring unforeseen circumstances, we are cautiously optimistic about the market environment and our prospects for the year ahead.

### **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 in the past year.

Lastly, and certainly not least, I would like to sincerely thank you, our Unitholders, for the unwavering trust and confidence you have placed in Prosperity REIT and look forward to your continued support.

**Chiu Kwok Hung, Justin**  
*Chairman*  
**ARA Asset Management (Prosperity) Limited**  
**as manager of Prosperity REIT**

Hong Kong, 3 March 2016

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 2015, 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 2015, 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 2015, 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	3,122	93.9%
Prosperity Millennia Plaza	North Point	217,955	43	1,971	98.0%
9 Chong Yip Street	Kwun Tong	136,595	68	1,088	97.6%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	514	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,544	93.7%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,010	95.7%
Prosperity Center (portion)	Kwun Tong	149,253	105	854	98.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	316	100.0%
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>10,419</b>	<b>96.4%</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 96.4% was recorded as at 31 December 2015, 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 21.3%.

### **Investment Review**

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 Prosperity Millennia Plaza, 9 Chong Yip Street and Trendy Centre. Asset enhancement initiatives will continue in 2016 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, which is a maturing decentralized business district with many new high-specifications office developments. As the community becomes more aware of environmental protections, green facilities have become one of the main features in commercial properties. In 9 Chong Yip Street, a roof garden was set up in 2015 to provide an environmental friendly workplace for our tenants and to get in-line with the latest design of office buildings in the vicinity.

#### **Prosperity Millennia Plaza and Trendy Centre**

Prosperity Millennia Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices.

Trendy Centre is located on Castle Peak Road in Lai Chi Kok, the heart of Kowloon's garment and fashion wholesale district.

In view of the rise in operating cost of the air conditioning system, we have replaced the existing chiller set with the more energy-efficient model in both properties, 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	105,511	19,821	125,332	101,501
Prosperity Millennia Plaza	73,070	13,692	86,762	71,127
9 Chong Yip Street	34,275	4,094	38,369	29,442
<b>Commercial</b>				
Harbourfront Landmark (portion)	22,015	6,403	28,418	23,044
Prosperity Place	61,183	500	61,683	46,726
<b>Industrial/Office</b>				
Trendy Centre	40,655	6,547	47,202	35,348
Prosperity Center (portion)	33,213	3,240	36,453	27,596
<b>Industrial</b>				
New Treasure Centre (portion)	12,769	1,735	14,504	10,695
<b>Total</b>	<b>382,691</b>	<b>56,032</b>	<b>438,723</b>	<b>345,479</b>

### **Revenue**

During the Reporting Year, revenue improved to HK\$438.7 million, being HK\$35.3 million or 8.8% higher than that of 2014.

The revenue comprised HK\$382.7 million of rental and car park income, plus HK\$56.0 million of rental related income. Rental and car park income was HK\$32.5 million or 9.3% above that of 2014.

### Net Property Income

For the Reporting Year, the net property income was HK\$345.5 million, exceeding that of 2014 by HK\$33.4 million or 10.7%. The growth was attributable to the rental reversion rate of 16.3% for the entire portfolio, outstanding performance in both occupancy rate and rental income in 9 Chong Yip Street acquired in 2014 and the strong rental uplift in Harbourfront Landmark. The cost-to-revenue ratio was 21.3%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$254.1 million, representing a total DPU of HK\$0.1768. 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\$12.7 million (equivalent to HK\$0.0088 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 2015 to 31 December 2015 is HK\$129.3 million, equivalent to a DPU of HK\$0.0897. The interim DPU from 1 January 2015 to 30 June 2015 was HK\$0.0871, and the total DPU for the Reporting Year is HK\$0.1768, which represents a distribution yield of 6.3%<sup>4</sup>. The DPU increased 8.5% YoY mainly due to the increase in net property income.

The distribution for the half year from 1 July 2015 to 31 December 2015 will be paid on Tuesday, 5 April 2016.

### Liquidity and Financing

As at 31 December 2015, Prosperity REIT had facilities in aggregate of HK\$3,284 million, comprising:

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

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<sup>4</sup> Based on Prosperity REIT's closing unit price of HK\$2.79 as at 31 December 2015.

- (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 2015.

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

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2015, the interest costs for approximately 55% (31 December 2014: 55%) of Prosperity REIT’s outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT’s gross assets was 27.2% as at 31 December 2015, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 31.8% as at 31 December 2015 .

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\$515.7 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 2015</b> <i>HK\$'000</i>	31 December 2014 <i>HK\$'000</i>
Fair value at the beginning of the year	<b>9,890,000</b>	8,518,000
Additional expenditure	<b>13,298</b>	25,845
Acquisition	-	1,014,054
Increase in fair value of investment properties	<b>515,702</b>	332,101
Fair value at the end of the year	<b>10,419,000</b>	9,890,000

### Charges on Assets

As at 31 December 2015, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,526.9 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, 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 9,104,000 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, 22 March 2016 to Thursday, 24 March 2016, 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, 21 March 2016. The payment date of the final distribution will be on Tuesday, 5 April 2016.

## **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 2015.

**ISSUANCE OF ANNUAL REPORT**

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Saturday, 30 April 2016.

**ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 6 May 2016. 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 2015

	<i>Note</i>	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Revenue	3	438,723	403,413
Property management fees		(10,447)	(9,460)
Property operating expenses		(82,797)	(81,897)
Total property operating expenses		(93,244)	(91,357)
<b>Net property income</b>		345,479	312,056
Interest income		68	1
Manager's fee		(51,196)	(48,054)
Trust and other expenses	5	(8,577)	(22,139)
Change in fair value of investment properties		515,702	332,101
Change in fair value of derivative financial instruments		(295)	(6,567)
Finance costs	6	(72,415)	(69,281)
<b>Profit before taxation and transactions with unitholders</b>		728,766	498,117
Taxation	7	(36,175)	(31,624)
<b>Profit for the year, before transactions with unitholders</b>		692,591	466,493
Distribution to unitholders		(254,083)	(231,364)
<b>Profit for the year, after transactions with unitholders</b>		438,508	235,129
<b>Other comprehensive income – Item that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		(701)	3,665
Reclassification of hedging reserve to profit or loss		-	12,799
<b>Other comprehensive income for the year</b>		(701)	16,464
<b>Total comprehensive income for the year, after transactions with unitholders</b>		437,807	251,593
<b>Income available for distribution to unitholders</b>		254,083	231,364
<b>Basic earnings per unit (HK\$)</b>	8	0.48	0.33

## Distribution Statement

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>692,591</b>	<b>466,493</b>
Adjustments:		
Manager's fee	50,070	46,973
Acquisition fee	-	10,100
Change in fair value of investment properties	(515,702)	(332,101)
Change in fair value of derivative financial instruments	295	6,567
Finance costs	12,700	21,222
Deferred tax	14,129	12,110
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>254,083</b>	<b>231,364</b>
<b>Distributions to unitholders:</b>		
HK\$0.0871 (2014: HK\$0.0815) per unit for the six months ended 30 June (note (ii))	124,771	115,302
HK\$0.0897 (2014: HK\$0.0815) per unit for the six months ended 31 December (note (iii))	129,312	116,062
	<hr/>	<hr/>
	<b>254,083</b>	<b>231,364</b>
	<hr/>	<hr/>
<b>Total distribution per unit (HK\$)</b>	<b>0.1768</b>	<b>0.1630</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\$50,070,000 (2014: HK\$46,973,000) out of the total manager's fee of HK\$51,196,000 (2014: HK\$48,054,000) (the differences of HK\$1,126,000 (2014: HK\$1,081,000) are paid in cash), and no acquisition fee paid during the year (2014: HK\$10,100,000);

- (b) change in fair value of investment properties of HK\$515,702,000 (2014: HK\$332,101,000), and change in fair value of derivative financial instruments of HK\$295,000 (2014: HK\$6,567,000);
  - (c) adjustment in respect of the difference between the accounting finance cost of HK\$72,415,000 (2014: HK\$69,281,000) less cash finance cost of HK\$59,715,000 (2014: HK\$48,059,000); and
  - (d) deferred tax provision of HK\$14,129,000 (2014: HK\$12,110,000).
- (ii) The distribution per unit of HK\$0.0871 for the six months ended 30 June 2015 (six months ended 30 June 2014: HK\$0.0815) is calculated based on Prosperity REIT's income available for distribution of HK\$124,771,000 (six months ended 30 June 2014: HK\$115,302,000) over 1,432,382,505 units (30 June 2014: 1,414,948,774 units), representing units in issue as at 30 June 2015 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 2015. The distribution was paid to unitholders on 7 September 2015.
- (iii) The distribution per unit of HK\$0.0897 for the six months ended 31 December 2015 (six months ended 31 December 2014: HK\$0.0815) is calculated based on Prosperity REIT's income available for distribution of HK\$129,312,000 (six months ended 31 December 2014: HK\$116,062,000) over 1,441,694,696 units (31 December 2014: 1,423,889,157 units), representing units in issue as at 31 December 2015 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 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		10,419,000	9,890,000
<b>Current assets</b>			
Trade and other receivables	9	8,803	10,016
Bank balances and cash		64,911	65,184
Total current assets		73,714	75,200
<b>Total assets</b>		<b>10,492,714</b>	<b>9,965,200</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		8,123	560
Term loans	11	2,813,311	2,800,611
Deferred tax liabilities		171,471	157,342
Total non-current liabilities, excluding net assets attributable to unitholders		2,992,905	2,958,513
<b>Current liabilities</b>			
Trade and other payables	10	188,531	187,920
Amount due to related companies		10,821	12,253
Derivative financial instruments		-	6,567
Provision for taxation		2,293	2,910
Manager's fee payable		13,117	12,289
Distribution payable		129,312	116,062
Total current liabilities		344,074	338,001
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>3,336,979</b>	<b>3,296,514</b>
<b>Net assets attributable to unitholders</b>		<b>7,155,735</b>	<b>6,668,686</b>
<b>Units in issue ('000)</b>	12	<b>1,436,854</b>	<b>1,419,635</b>
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	13	<b>4.98</b>	<b>4.70</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**”)

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the 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 financial statements.

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

The Group has not early applied 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>1</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</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 2016

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

## **HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other

comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follow:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

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

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

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

	2015 HK\$'000	2014 HK\$'000
Gross rental from investment properties:		
Rental income	357,181	326,229
Car park income	25,510	24,011
	<u>382,691</u>	<u>350,240</u>
Rental related income	56,032	53,173
	<u>438,723</u>	<u>403,413</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in eight (2014: 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 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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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

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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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

(5) Trust and other expenses:

	2015 HK\$'000	2014 HK\$'000
Acquisition expenses	-	3,900
Acquisition fee (paid in units)	-	10,100
Audit fee	208	262
Back-office support service fee	45	59
Bank charges	1,811	1,277
Legal and professional fees	511	764
Public relations-related expenses	412	286
Registrar fee	600	602
Trust administrative expenses	1,947	2,028
Trustee's fee	3,043	2,861
	<u>8,577</u>	<u>22,139</u>

(6) Finance costs:

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Interest expense on:		
Secured term loans	49,756	44,753
Unsecured term loan	9,118	8,581
Equalisation of interest expense through interest rate swaps	13,322	13,655
	<u>72,196</u>	<u>66,989</u>
Secured revolving loan	219	2,292
	<u>72,415</u>	<u>69,281</u>

(7) Taxation:

	<i>2015</i> <i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Current tax	22,214	19,752
Over-provision in prior year	(168)	(238)
Deferred tax	14,129	12,110
	<u>36,175</u>	<u>31,624</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\$692,591,000 (2014: HK\$466,493,000) by the weighted average of 1,432,538,133 (2014: 1,413,401,652) 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>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	311	375
Deposit and prepayments	8,492	9,641
	<u>8,803</u>	<u>10,016</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>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	62	374
2 – 3 months	249	1
	<u>311</u>	<u>375</u>

(10) Trade and other payables:

	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,357	2,874
Tenants' deposits		
- Outside parties	136,545	135,014
- Related parties	768	590
Rental received in advance		
- Outside parties	3,359	3,117
Other payables	46,502	46,325
	<u>188,531</u>	<u>187,920</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>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	475	1,751
2 – 3 months	551	932
Over 3 months	331	191
	<u>1,357</u>	<u>2,874</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\$94,173,000 (2014: HK\$85,776,000).

(11) Borrowings:

	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured term loans	2,474,000	2,474,000
Unsecured term loan	380,000	380,000
Bank facility origination fees	(40,689)	(53,389)
	<u>2,813,311</u>	<u>2,800,611</u>
Carrying amount repayable:		
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	2,435,945	2,800,611
	<u>2,813,311</u>	<u>2,800,611</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
Balance as at 1 January 2014	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	19,025,109	45,591
Balance as at 31 December 2014	<u>1,419,635,074</u>	<u>2,990,328</u>
Payment of manager's base fee and variable fee through issuance of new units during the year	17,218,841	49,242
Balance as at 31 December 2015	<u>1,436,853,915</u>	<u>3,039,570</u>

- (13) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$1,261,000 (2014: HK\$560,000), and the total number of 1,436,853,915 units in issue as at 31 December 2015 (1,419,635,074 units in issue as at 31 December 2014).
- (14) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$270,360,000 (2014: HK\$262,801,000) and the Group's total assets less current liabilities amounted to HK\$10,148,640,000 (2014: HK\$9,627,199,000).
- (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.*