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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

INTERIM RESULTS ANNOUNCEMENT FOR 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. Prosperity REIT was the first private sector real estate investment trust (“REIT”) to list on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 December 2005 (the “Listing Date”). Prosperity REIT owns a diverse portfolio of eight high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2015 (the “Reporting Period”) together with comparative figures for the corresponding period in 2014 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2015</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2014</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0871	HK\$0.0815	6.9%

<u>Key financial figures</u>	<u>As at 30 Jun 2015</u> <u>(unaudited)</u>	<u>As at 31 Dec 2014</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$4.91	HK\$4.70	4.5%
Property valuation	HK\$10,258 million	HK\$9,890 million	3.7%
Gearing ratio ¹	27.6%	28.6%	(1.0%) ²

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2015</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2014</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$215.8 million	HK\$197.8 million	9.1%
Net property income	HK\$170.7 million	HK\$155.2 million	10.0%
Average effective unit rent	HK\$22.40 per sq. ft.	HK\$20.23 per sq. ft.	10.7%
Occupancy rate <i>(as at 30 June)</i>	98.5%	97.8%	0.7% ²
Rental reversion rate	16.8%	28.6%	(11.8%) ²
Cost-to-revenue ratio	20.9%	21.6%	(0.7%) ²

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

² Absolute change

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 30 June 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 30 June 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 30 June 2015, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ Million	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	3,120	98.4%
Prosperity Millennia Plaza	North Point	217,955	43	1,936	99.1%
9 Chong Yip Street	Kwun Tong	136,595	68	1,086	100.0%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	494	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,503	97.2%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	984	98.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	832	97.2%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	303	98.7%
Total		1,352,174	498	10,258	98.5%

During the Reporting Period, global economies continued to face challenges against the backdrop of the Greece debt problem and slowdown in Mainland China's economic growth. In U.S., Federal Reserve (FED) provided guiding signal of the initial rate increase might be possible within three to six months after the Federal Open Market Committee (FOMC) meeting held in June.

Nevertheless, Hong Kong's leasing market continued to grow with PRC securities and investment firms taking up office spaces in Central due to the broadening of investment limits of the Shanghai-Hong Kong Stock Connect and the optimistic view on the potential Shenzhen-Hong Kong Stock Connect. In June, vacancy rates in Central reached 1.7%, dropping below 2.0% for the first time since November 2008.

In Kowloon East, the market is predicted to be stable in year 2015. Although most future office supply will take place in Kowloon East, it will be partly absorbed by the demand from end users and tenants which are migrating from Core Business District for cost-saving options. Notwithstanding a competitive market condition with increasing office supply, Prosperity REIT achieved a rental reversion rate of 16.8%, complemented with a stable occupancy rate of 98.5% during the Reporting Period. The average effective unit rent of Prosperity REIT's portfolio also recorded a solid growth of 10.7% to HK\$22.40 per sq. ft. during the Reporting Period. This resilient performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services, which enabled us to stand out from keen competitions and attract quality tenants.

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 20.9% for the Reporting Period.

As at 30 June 2015, Prosperity REIT's gearing ratio remained at a healthy level of 27.6% (31 December 2014: 28.6%), providing us with a strong balance sheet to take advantage of future growth opportunities.

Investment Review

The REIT Manager will continue to seek out potential acquisition opportunities. We will assess every acquisition target prudently in accordance with our established investment criteria, including the enhancement potential of asset value, organic growth prospects and synergies with existing properties in the portfolio.

Asset Enhancement

Asset enhancement has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties will also be a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, a number of asset enhancement works were carried out at 9 Chong Yip Street, Prosperity Millennium Plaza and Trendy Centre.

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.

Following the successful opening of the living green roof garden at Prosperity Place and The Metropolis Tower in 2009 and 2010 respectively, a roof garden was set up at 9 Chong Yip Street in order to provide green building facilities for tenants' enjoyment.

Prosperity Millennium Plaza and Trendy Centre

Prosperity Millennium 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 wholesaling district.

In view of the higher electricity tariffs and operating cost of the air conditioning system, we have replaced one of the existing chiller sets in these two properties by a more energy-efficient model, enabling about 15% in energy cost savings for air conditioning provision.

Outlook

The global economies are in divergence direction of growth. The U.S. economy remains in a stable growth momentum supported by the positive signs on domestic demands and job market. The FED has managed market expectation on the first interest rate rise within this year. The euro zone is facing financial uncertainty caused by Greece and general weak economic growth. In China, the economy continues to slow down, despite the government imposing various monetary policies to stabilize the economy.

As Hong Kong continues to face the headwinds from the external environment, the economic growth is under pressure. However, in the first half of 2015, Central office leasing market showed growth momentum on the back of limited office supply, strong demands and low vacancies. With the new high specifications office supply launching in Kowloon East area, the government infrastructure planning and the capital investment made by multinational companies and investment funds, investors remain confident in Kowloon East transforming into the second central business district of Hong Kong (“CBD2”) in the long run. Kowloon East district has evolved to be a relocation option for corporates from core business district.

Prosperity REIT, being a long term player in Kowloon East office market, 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 that successfully drive rental income. Given our refinancing completed last year, there is no major refinancing need in the near future. With all these advantages, Prosperity REIT’s unitholders can confidently expect stable and sustainable returns to continue in the foreseeable 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:

	Turnover <i>HK\$'000</i>	Rental related income <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Net property income <i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	52,713	10,042	62,755	50,410
Prosperity Millennia Plaza	36,221	6,660	42,881	35,310
9 Chong Yip Street	16,903	1,940	18,843	15,218
Commercial				
Harbourfront Landmark (portion)	10,686	3,150	13,836	11,375
Prosperity Place	29,056	176	29,232	21,207
Industrial/Office				
Trendy Centre	19,932	3,288	23,220	18,012
Prosperity Center (portion)	16,213	1,567	17,780	13,698
Industrial				
New Treasure Centre (portion)	6,379	876	7,255	5,457
Total	188,103	27,699	215,802	170,687

Revenue

During the Reporting Period, revenue improved to HK\$215.8 million, being HK\$18.0 million or 9.1% higher than the last corresponding half year.

The revenue comprised HK\$188.1 million of rental and car park income, plus HK\$27.7 million of rental related income. Rental and car park income was HK\$16.9 million or 9.9% higher than the last corresponding half year.

Net Property Income

For the Reporting Period, the net property income was HK\$170.7 million, exceeding that of the last corresponding half year by HK\$15.5 million or 10.0%. The growth was mainly attributable to the rental reversion rate of 16.8% for the entire portfolio and the outstanding performance in both occupancy rate and rental income in 9 Chong Yip Street acquired in 2014. The cost-to-revenue ratio was 20.9%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$124.8 million, representing a DPU of HK\$0.0871. This represents an annualized distribution yield of 6.3%³. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$6.3 million (equivalent to HK\$0.0044 per unit), which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the Reporting Period.

Distribution

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

Liquidity and Financing

As at 30 June 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;
- (ii) a HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014 (the "**HK\$404 Million Facility**"); and
- (iii) a HK\$380 million unsecured term loan, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014 (the "**HK\$380 Million Facility**").

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

³ Based on Prosperity REIT's closing unit price of HK\$2.78 as at 30 June 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 plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 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 27.6% as at 30 June 2015, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 32.2% as at 30 June 2015.

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\$359.7 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 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	9,890,000	8,518,000
Additional expenditure	8,308	25,845
Acquisition	-	1,014,054
Change in fair value of investment properties	359,692	332,101
Fair value at the end of the period/year	<u>10,258,000</u>	<u>9,890,000</u>

Charges on Assets

As at 30 June 2015, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,462 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and certain subsidiaries have provided guarantees for the HK\$2,500 Million Facilities, the HK\$404 Million and HK\$380 Million Facilities.

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 1,104,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Thursday, 27 August 2015 to Tuesday, 1 September 2015, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 26 August 2015. The payment date of interim distribution will be on Monday, 7 September 2015.

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 2015.

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 Monday, 31 August 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		<i>Six months ended 30 June</i>	
		<i>2015</i>	<i>2014</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	215,802	197,793
Property management fees		(5,141)	(4,649)
Property operating expenses		(39,974)	(37,988)
Total property operating expenses		(45,115)	(42,637)
Net property income		170,687	155,156
Interest income		39	-
Manager's fee		(25,105)	(23,688)
Trust and other expenses	5	(4,458)	(17,830)
Change in fair value of investment properties		359,692	62,228
Change in fair value of derivative financial instruments		199	-
Finance costs	6	(36,645)	(29,637)
Profit before taxation and transactions with unitholders		464,409	146,229
Taxation	7	(17,500)	(16,183)
Profit for the period, before transactions with unitholders		446,909	130,046
Distribution to unitholders		(124,771)	(115,302)
Profit for the period, after transactions with unitholders		322,138	14,744
Other comprehensive income – item that may be subsequently classified to profit or loss:			
Change in fair value of cash flow hedge		(757)	4,225
Total comprehensive income for the period, after transactions with unitholders		321,381	18,969
Income available for distribution to unitholders		124,771	115,302
Basic earnings per unit (HK\$)	8	0.31	0.09

DISTRIBUTION STATEMENT

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period, before transactions with unitholders	446,909	130,046
Adjustments:		
Manager's fee	24,544	23,156
Acquisition fee	-	10,100
Change in fair value of investment properties	(359,692)	(62,228)
Change in fair value of derivative financial instruments	(199)	-
Finance costs	6,298	6,906
Deferred tax	6,911	7,322
Income available for distribution (note (i))	124,771	115,302
Distribution to unitholders:		
For the six months ended 30 June	124,771	115,302
Distribution per unit (HK\$) (note (ii))	0.0871	0.0815

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\$24,544,000 (2014: HK\$23,156,000) out of the total manager's fee of HK\$25,105,000 (2014: HK\$23,688,000) (the difference of HK\$561,000 (2014: HK\$532,000) is paid in cash), and no acquisition fee paid for the period (2014: HK\$10,100,000);
- (b) change in fair value of investment properties of HK\$359,692,000 (2014: HK\$62,228,000), and change in fair value of derivative financial instruments of HK\$199,000 (2014: Nil);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$36,645,000 (2014: HK\$29,637,000) less cash finance cost of HK\$30,347,000 (2014: HK\$22,731,000); and
- (d) deferred tax provision of HK\$6,911,000 (2014: HK\$7,322,000).

(ii) The DPU of HK\$0.0871 (2014: HK\$0.0815) is calculated based on Prosperity REIT's income available for distribution of HK\$124,771,000 (2014: HK\$115,302,000) over 1,432,382,505 units (2014: 1,414,948,774 units), representing units in issue as at 30 June 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 second quarter of the relevant distribution period.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		30 Jun 2015 HK\$'000 (unaudited)	31 Dec 2014 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		10,258,000	9,890,000
Current assets			
Trade and other receivables	9	10,253	10,016
Bank balances and cash		82,925	65,184
Total current assets		93,178	75,200
Total assets		10,351,178	9,965,200
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		7,685	560
Term loans	11	2,806,909	2,800,611
Deferred tax liabilities		164,253	157,342
Total non-current liabilities, excluding net assets attributable to unitholders		2,978,847	2,958,513
Current liabilities			
Trade and other payables	10	193,745	187,920
Amounts due to related companies		13,425	12,253
Derivative financial instruments		-	6,567
Provision for taxation		13,486	2,910
Manager's fee payable		12,797	12,289
Distribution payable		124,771	116,062
Total current liabilities		358,224	338,001
Total liabilities, excluding net assets attributable to unitholders		3,337,071	3,296,514
Net assets attributable to unitholders		7,014,107	6,668,686
Units in issue ('000)	12	1,428,119	1,419,635
Net asset value per unit (HK\$) attributable to unitholders	13	4.91	4.70

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 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014 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 2015:

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

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

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ⁴
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁴
Amendments to HKAS 1	Disclosure Initiative ⁴
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁴
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁴
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁴

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ⁴

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

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

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

4 Effective for annual periods beginning on or after 1 January 2016

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follows:

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

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

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

(2) Basis of preparation:

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

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

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

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	175,500	159,638
Car park income	12,603	11,519
	<hr/>	<hr/>
	188,103	171,157
Rental related income	27,699	26,636
	<hr/>	<hr/>
	215,802	197,793
	<hr/> <hr/>	<hr/> <hr/>

(4) Segment information:

Prosperity REIT is currently investing in eight office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

Six months ended 30 June 2015 (unaudited)

	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	62,755	42,881	18,843	13,836	29,232	23,220	17,780	7,255	215,802
Segment profit	50,410	35,310	15,218	11,375	21,207	18,012	13,698	5,457	170,687
Interest income									39
Manager's fee									(25,105)
Trust and other expenses									(4,458)
Change in fair value of investment properties									359,692
Change in fair value of derivative financial instruments									199
Finance costs									(36,645)
Profit before taxation and transactions with unitholders									464,409

Six months ended 30 June 2014 (unaudited)

	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	60,271	38,693	15,623	11,699	27,263	20,954	16,598	6,692	197,793
Segment profit	49,466	31,116	12,151	9,345	20,865	14,382	12,812	5,019	155,156
Manager's fee									(23,688)
Trust and other expenses									(17,830)
Change in fair value of investment properties									62,228
Finance costs									(29,637)
Profit before taxation and transactions with unitholders									146,229

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Acquisition expenses	-	3,744
Acquisition fee (paid in units)	-	10,100
Audit fee	115	131
Trustee's fee	1,478	1,407
Bank charges	989	480
Legal and professional fees	235	148
Registrar fee	300	300
Back-office support service fee	25	37
Public relations-related expenses	282	190
Trust administrative expenses	1,034	1,293
	<hr/>	<hr/>
	4,458	17,830
	<hr/> <hr/>	<hr/> <hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Secured term loans	24,713	17,700
Unsecured term loan	4,528	4,000
Equalisation of interest expense through interest rate swaps	7,286	6,722
	<hr/>	<hr/>
	36,527	28,422
Secured revolving loan	118	1,215
	<hr/>	<hr/>
	36,645	29,637
	<hr/> <hr/>	<hr/> <hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2015</i>	<i>2014</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	10,185	8,861
Under-provision in prior years	404	-
Deferred tax	6,911	7,322
	<hr/>	<hr/>
	17,500	16,183
	<hr/> <hr/>	<hr/> <hr/>

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

(8) Basic earnings per unit:

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$446,909,000 (2014: HK\$130,046,000) by the weighted average of 1,428,080,500 (2014: 1,407,199,843) 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 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	506	438
Less: allowance for doubtful debts	(64)	(63)
	<hr/> 442	<hr/> 375
Deposits, prepayments and other receivables	9,811	9,641
	<hr/> 10,253	<hr/> 10,016

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 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	347	374
2 – 3 months	77	1
Over 3 months	18	-
	<hr/> 442	<hr/> 375

(10) Trade and other payables:

	<i>30 Jun 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	3,713	2,874
Tenants' deposits		
- Outside parties	136,953	135,014
- Related parties	590	590
Rental received in advance		
- Outside parties	3,818	3,117
Other payables	48,671	46,325
	<hr/>	<hr/>
	193,745	187,920
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>30 Jun 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	1,043	1,751
2 – 3 months	834	932
Over 3 months	1,836	191
	<hr/>	<hr/>
	3,713	2,874
	<hr/> <hr/>	<hr/> <hr/>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of the Reporting Period based on the lease terms amounted to HK\$84,172,000 as at 30 June 2015 (31 December 2014: HK\$85,776,000).

(11) Borrowings:

	<i>30 Jun 2015</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2014</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loans	2,474,000	2,474,000
Unsecured term loan	380,000	380,000
Bank facility origination fees	(47,091)	(53,389)
	<u>2,806,909</u>	<u>2,800,611</u>
Carrying amount repayable:		
Within a period of more than one year but not exceeding two years	376,091	-
Within a period of more than two years but not exceeding five years	2,430,818	2,800,611
	<u>2,806,909</u>	<u>2,800,611</u>

(12) Units in issue:

	Number of units	HK\$'000
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	1,419,635,074	2,990,328
Payment of Manager's base fee and variable fee through issuance of new units during the period	8,484,037	24,040
Balance as at 30 June 2015	<u>1,428,119,111</u>	<u>3,014,368</u>

- (13) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$1,317,000 (31 December 2014: HK\$560,000), and the total number of 1,428,119,111 units in issue as at 30 June 2015 (31 December 2014: 1,419,635,074 units).

- (14) At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$265,046,000 (31 December 2014: HK\$262,801,000) and the Group's total assets less current liabilities amounted to HK\$9,992,954,000 (31 December 2014: HK\$9,627,199,000).
- (15) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT's external auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 13 August 2015

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.