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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 2017**

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 2017, Prosperity REIT owned a diverse portfolio of seven 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 2017 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2016 as follows:

**Performance Highlights**

	<b><u>Year ended 31 Dec 2017</u></b>	<b><u>Year ended 31 Dec 2016</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Distribution per unit (“DPU”)	HK\$0.1780	HK\$0.1777	0.2%

<b><u>Key financial figures</u></b>	<b><u>As at 31 Dec 2017</u></b>	<b><u>As at 31 Dec 2016</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Net asset value per unit	HK\$5.48	HK\$5.17	6.0%
Property valuation <sup>1</sup>	HK\$10,490 million	HK\$10,777 million	(2.7%)
Gearing ratio <sup>2</sup>	21.5%	26.4%	(4.9%) <sup>3</sup>

<b><u>Operation data</u></b>	<b><u>Year ended 31 Dec 2017</u></b>	<b><u>Year ended 31 Dec 2016</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Revenue	HK\$446.2 million	HK\$452.9 million	(1.5%) <sup>4</sup>
Net property income	HK\$353.6 million	HK\$357.8 million	(1.2%) <sup>4</sup>
Average effective unit rent	HK\$24.31 per sq.ft.	HK\$23.76 per sq.ft.	2.3%
Occupancy rate (as at 31 Dec)	97.7%	96.1%	1.6% <sup>3</sup>
Cost-to-revenue ratio	20.8%	21.0%	(0.2%) <sup>3</sup>

<sup>1</sup> Property valuation as at 31 December 2016 included Harbourfront Landmark Property (“HFL”) of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale. Excluding the valuation of HFL which was disposed during the Reporting Year, the percentage change would be 3.0%.

<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.

<sup>4</sup> Decrease was mainly due to the revenue loss in HFL as a result of its disposal on 3 March 2017.

## **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 2017. 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**

With an aim to optimise return for our Unitholders, we review our portfolio from time to time. We captured an opportunity to dispose of the HFL during the Reporting Year at a premium of approximately 49.1% over valuation. Despite the loss of revenue from HFL since its completion on 3 March 2017, we registered a mild growth in distributable income to HK\$261.5 million, representing 1.2% year-on-year ("YoY") growth. At the same time, the net asset value per unit and property valuation (excluding the valuation of HFL) marked a YoY growth by 6.0% and 3.0% to HK\$5.48 and HK\$10,490 million respectively.

In light of these results, I am pleased to announce that our Unitholders will receive a total distribution per unit ("DPU") of HK\$0.1780 for the Reporting Year, representing a stable yield of 5.3%<sup>5</sup>.

## **Market Review**

Revive of inbound tourism, solid domestic demand, robust property market and a noticeably strong stock market in the last quarter, are all positives to Hong Kong economy in 2017.

The China sector was stable and 2017 GDP growth reached 6.9%, which is within market expectations.

While the US economy performed broadly positively, fragility still remained and the government policy outlook remained uncertain. The economy maintained an overall trend of moderate growth, with GDP increasing 2.3% for the year. The tax cut reform is expected to stimulate GDP growth. On the other hand, interest rate hikes seen on a number of occasions in 2017 are set to be continued.

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<sup>5</sup> Based on Prosperity REIT's closing unit price of HK\$3.34 as at 29 December 2017.

## **Operations Review**

Due to the impact from disposal of HFL, we recorded a marginal drop in topline revenue and net property income of 1.5% and 1.2% to HK\$446.2 million and HK\$353.6 million respectively in the Reporting Year. However, positive rental reversion, stable occupancy rates and positive increments in average effective rent all contributed to mitigate the effect from the loss of revenue.

A portion of the disposal proceeds of HFL was used to pay down a part of the term loan, thereby bringing the gearing ratio down to 21.5% from 26.4% as of 31 December 2016. Prosperity REIT is able to achieve greater financial flexibility to capture future opportunities.

A combination of excellent property management services and diligent cost control measures allowed us to maintain the cost-to-revenue at a healthy level of 20.8%.

## **Outlook**

With the cycle of interest rate hikes expected to be continued, Prosperity REIT has appropriate hedging arrangements in place to mitigate the potential impact. We will continue to closely monitor the interest rate movement and manage the hedging position.

The Kowloon East district is continuing to become a more mature commercial hub, thereby a priority destination for corporates looking for quality office space. Our portfolio retains a strong presence in the district over the years and we are all set for this opportunity. Yet, the large office supply in the district in the coming years may cause potential headwinds to Prosperity REIT. We shall maintain a flexible leasing strategy.

Barring unforeseen circumstances, we remain cautiously optimistic regarding both the challenges that lie ahead for the Hong Kong economy and also the broad outlook for Prosperity REIT. Our management approach remains prudent and proactive as we remain committed to optimizing stable and sustainable returns for the benefit of our Unitholders. We are well-positioned and prepared for the upcoming challenges and will continue to explore opportunities for further growth.

## **Acknowledgements**

My sincere thanks extend once again to all those who have contributed to our success over the past year. In particular, my thanks go to my fellow Board members and the management team for their dedication and efforts. Our staff members, tenants, service providers and business partners have also played significant roles taking us forward.

Finally, I would like to acknowledge and thank all our Unitholders. Your continuing support and confidence in Prosperity REIT is critical for our sustainable growth.

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

Hong Kong, 15 March 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 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 31 December 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 31 December 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	3,220	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	2,140	98.3%
9 Chong Yip Street	Kwun Tong	136,595	68	1,100	95.3%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,760	98.4%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,050	98.1%
Prosperity Center (portion)	Kwun Tong	149,253	105	880	93.5%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	340	97.2%
<b>Total</b>		<b>1,275,153</b>	<b>498</b>	<b>10,490</b>	<b>97.7%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A stable occupancy rate of 97.7% was recorded as at 31 December 2017, reflecting the effectiveness of the leasing strategies deployed. With efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 20.8%.

### **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. The REIT Manager also constantly reviews its portfolio from time to time and may consider asset disposal. In the Reporting Year, the REIT Manager captured the opportunity to dispose of HFL at a premium of approximately 49.1% over valuation and the disposal gain was about HK\$299.7 million. A portion of the disposal proceeds of HFL has been used to pay down a part of the term loan, thereby enhancing the financial flexibility of Prosperity REIT.

### **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 Year, an asset enhancement work was carried out at The Metropolis Tower.

### **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.

## **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	114,841	20,485	135,326	112,226
Prosperity Millennia Plaza	77,095	14,021	91,116	75,058
9 Chong Yip Street	34,842	4,122	38,964	30,316
<b>Commercial</b>				
Harbourfront Landmark (portion) *	4,277	1,479	5,756	4,880
Prosperity Place	69,598	584	70,182	53,145
<b>Industrial/Office</b>				
Trendy Centre	43,343	6,307	49,650	36,316
Prosperity Center (portion)	36,471	3,382	39,853	30,717
<b>Industrial</b>				
New Treasure Centre (portion)	13,438	1,957	15,395	10,942
<b>Total</b>	<b>393,905</b>	<b>52,337</b>	<b>446,242</b>	<b>353,600</b>

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

## **Revenue**

During the Reporting Year, revenue slightly decreased to HK\$446.2 million, being HK\$6.7 million or 1.5% lower than that of 2016. The drop was mainly due to the revenue loss in HFL as a result of its disposal on 3 March 2017.

### Net Property Income

For the Reporting Year, the net property income was HK\$353.6 million, being HK\$4.2 million or 1.2% lower than that of 2016. The cost-to-revenue ratio was 20.8%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$261.5 million, representing a total DPU of HK\$0.1780. 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\$26.4 million (equivalent to HK\$0.0180 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 2017 to 31 December 2017 is HK\$127.4 million, equivalent to a DPU of HK\$0.0865. The interim DPU from 1 January 2017 to 30 June 2017 was HK\$0.0915. The total DPU for the Reporting Year is HK\$0.1780, which represents a distribution yield of 5.3%<sup>6</sup>. The DPU increased by 0.2% YoY.

The distribution for the half year from 1 July 2017 to 31 December 2017 will be paid on Friday, 13 April 2018.

### Liquidity and Financing

As at 31 December 2017, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

- (i) A term loan and revolving credit facility of up to an aggregate principal amount of HK\$1,970 million (the “**HK\$1,970 Million Facilities**”) comprising a HK\$1,540 million unsecured term loan facility and a HK\$430 million unsecured revolving credit facility, which bear interest at a margin of 0.82% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 30 November 2017, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the “**HK\$800 Million Facility**”).

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<sup>6</sup> Based on Prosperity REIT's closing unit price of HK\$3.34 as at 29 December 2017.

In relation to the HK\$1,970 Million Facilities, the term loan facility of HK\$1,540 million was fully drawn on 30 November 2017. None of the revolving credit facility was drawn as at 31 December 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 plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2017, the interest costs for approximately 90% (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 facilities origination fees, as a percentage of Prosperity REIT's gross assets was 21.5% as at 31 December 2017, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 26.0% as at 31 December 2017.

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\$295.7 million, based on a professional valuation performed by an independent qualified external valuer, Colliers International (Hong Kong) Limited (2016: Jones Lang LaSalle Limited). The movements of fair values are tabulated below:

	<b>31 December 2017</b> <i>HK\$'000</i>	31 December 2016 <i>HK\$'000</i>
Fair value at the beginning of the year	<b>10,183,000</b>	10,419,000
Additional expenditure	<b>11,303</b>	12,666
Change in fair value of investment properties	<b>295,697</b>	345,334
Transfer to assets of a disposal group classified as held for sale	-	(594,000)*
Fair value at the end of the year	<b>10,490,000</b>	10,183,000

\* The amount represents HFL of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

### Charges on Assets

As at 31 December 2017, all bank loan facilities of Prosperity REIT are unsecured, none of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities and the HK\$800 Million Facility.

### **EMPLOYEES**

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

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

During the Reporting Year, other than the disposal of 19,662,000 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, 3 April 2018 to Wednesday, 4 April 2018, 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 Thursday, 29 March 2018. The payment date of the final distribution will be on Friday, 13 April 2018.

## **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 2017.

## **ISSUANCE OF ANNUAL REPORT**

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Monday, 30 April 2018.

## **ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 11 May 2018. 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 2017*

	<i>Notes</i>	<i>2017</i> <i>HK\$'000</i>	<i>2016</i> <i>HK\$'000</i>
Revenue	3	446,242	452,926
Property management fees		(10,965)	(10,858)
Property operating expenses		(81,677)	(84,221)
Total property operating expenses		<u>(92,642)</u>	<u>(95,079)</u>
<b>Net property income</b>		353,600	357,847
Interest income		5,225	24
Manager's fee		(51,954)	(53,426)
Trust and other expenses	5	(9,276)	(15,805)
Gain on disposed property company	13	299,695	-
Change in fair value of investment properties		295,697	345,334
Change in fair value of derivative financial instruments		(18,050)	45,242
Finance costs	6	<u>(86,775)</u>	<u>(76,115)</u>
<b>Profit before taxation and transactions with unitholders</b>		788,162	603,101
Taxation	7	<u>(39,737)</u>	<u>(37,857)</u>
<b>Profit for the year, before transactions with unitholders</b>		748,425	565,244
Distribution to unitholders		<u>(261,533)</u>	<u>(258,362)</u>
<b>Profit for the year, after transactions with unitholders</b>		486,892	306,882
<b>Other comprehensive income – Item that may be reclassified subsequently to profit or loss:</b>			
Reclassification of hedging reserve to profit or loss		-	1,261
<b>Other comprehensive income for the year</b>		-	1,261
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<u>486,892</u>	<u>308,143</u>
<b>Income available for distribution to unitholders</b>		<u>261,533</u>	<u>258,362</u>
<b>Basic earnings per unit (HK\$)</b>	8	<u>0.51</u>	<u>0.39</u>

## Distribution Statement

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>748,425</b>	<b>565,244</b>
Adjustments:		
Manager's fee	50,815	52,280
Gain on disposed property company	(299,695)	-
Change in fair value of investment properties	(295,697)	(345,334)
Change in fair value of derivative financial instruments	18,050	(45,242)
Finance costs	26,411	16,997
Deferred tax	13,224	14,417
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>261,533</b>	<b>258,362</b>
<b>Distributions to unitholders:</b>		
HK\$0.0915 (2016: HK\$0.0906) per unit for the six months ended 30 June (note (ii))	134,096	131,372
HK\$0.0865 (2016: HK\$0.0871) per unit for the six months ended 31 December (note (iii))	127,437	126,990
	<hr/>	<hr/>
	<b>261,533</b>	<b>258,362</b>
	<hr/>	<hr/>
<b>Total distribution per unit (HK\$)</b>	<b>0.1780</b>	<b>0.1777</b>
	<hr/>	<hr/>

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\$50,815,000 (2016: HK\$52,280,000) out of the total manager's fee of HK\$51,954,000 (2016: HK\$53,426,000) (the differences of HK\$1,139,000 (2016: HK\$1,146,000) are paid in cash);

- (b) change in fair value of investment properties of HK\$295,697,000 (2016: HK\$345,334,000), loss on fair value change of derivative financial instruments of HK\$18,050,000 (2016: a gain of HK\$45,242,000), 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\$86,775,000 (2016: HK\$76,115,000) less cash finance cost of HK\$60,364,000 (2016: HK\$59,118,000); and
- (d) deferred tax provision of HK\$13,224,000 (2016: HK\$14,417,000).
- (ii) The distribution per unit of HK\$0.0915 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$0.0906) is calculated based on Prosperity REIT's income available for distribution of HK\$134,096,000 (six months ended 30 June 2016: HK\$131,372,000) over 1,465,548,870 units (30 June 2016: 1,449,733,936 units), representing units in issue as at 30 June 2017 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 2017. The distribution was paid to unitholders on 12 September 2017.
- (iii) The distribution per unit of HK\$0.0865 for the six months ended 31 December 2017 (six months ended 31 December 2016: HK\$0.0871) is calculated based on Prosperity REIT's income available for distribution of HK\$127,437,000 (six months ended 31 December 2016: HK\$126,990,000) over 1,473,137,260 units (31 December 2016: 1,457,894,330 units), representing units in issue as at 31 December 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 last quarter of the relevant distribution year.

## Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	13	10,490,000	10,183,000
Derivative financial instruments		20,341	38,436
		<u>10,510,341</u>	<u>10,221,436</u>
<b>Current assets</b>			
Derivative financial instruments		1,528	-
Trade and other receivables	9	8,667	39,332
Bank balances and cash		363,451	72,444
		<u>373,646</u>	<u>111,776</u>
Assets of a disposal group classified as held for sale	13	-	595,560
Total current assets		<u>373,646</u>	<u>707,336</u>
<b>Total assets</b>		<u><u>10,883,987</u></u>	<u><u>10,928,772</u></u>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		1,539	56
Term loans	11	2,303,945	2,833,308
Deferred tax liabilities		186,669	175,489
		<u>2,492,153</u>	<u>3,008,853</u>
Total non-current liabilities, excluding net assets attributable to unitholders		<u>2,492,153</u>	<u>3,008,853</u>
<b>Current liabilities</b>			
Trade and other payables	10	185,775	212,564
Amount due to related companies		9,481	7,252
Secured revolving loan	11	-	20,000
Provision for taxation		2,152	1,861
Manager's fee payable		13,246	13,562
Distribution payable		127,437	126,990
		<u>338,091</u>	<u>382,229</u>
Liabilities directly associated with assets of a disposal group classified as held for sale	13	-	21,969
Total current liabilities		<u>338,091</u>	<u>404,198</u>

<b>Total liabilities, excluding net assets attributable to unitholders</b>		2,830,244	3,413,051
		<hr/>	<hr/>
<b>Net assets attributable to unitholders</b>		8,053,743	7,515,721
		<hr/>	<hr/>
<b>Units in issue ('000)</b>	12	1,469,395	1,453,669
		<hr/>	<hr/>
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	14	5.48	5.17
		<hr/>	<hr/>

## Notes

### (1) General:

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year.

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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **Amendments to HKAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial

statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

### **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 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</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 9	Prepayment Features with Negative Compensation <sup>2</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 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Transfer of Investment Property <sup>1</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle <sup>2</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

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2021*

## **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 described as follow:

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 financial assets are measured at their fair value at 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 *Financial Instruments: Recognition and Measurement*. 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.

In relation to the impairment of financial assets, the REIT Manager anticipates that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the REIT Manager, the adoption of the expected credit loss model will have no material impact on the accumulated amount of impairment loss as the amount is insignificant. The REIT Manager anticipates the impact on initial application of HKFRS 9 will not be material as all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

### **HKFRS 16 Leases**

The Group currently considers refundable rental deposits received of HK\$ 139,135,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The REIT Manager anticipates that the application of other new and amendments to HKFRSs and interpretations 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 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 17 *Leases*, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial

resources, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

The principal accounting policies are set out below:

#### 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.

The Group 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 the Group obtains control over the subsidiary and ceases when the Group 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 the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group

had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

(3) Revenue:

	2017 HK\$'000	2016 HK\$'000
Gross rental from investment properties:		
Rental income	365,644	369,921
Car park income	28,261	26,547
	<u>393,905</u>	<u>396,468</u>
Rental related income	52,337	56,458
	<u>446,242</u>	<u>452,926</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in eight (2016: 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 (until the completion date of its disposal on 3 March 2017), 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 2017*

	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	135,326	91,116	38,964	5,756	70,182	49,650	39,853	15,395	446,242
Segment profit	112,226	75,058	30,316	4,880	53,145	36,316	30,717	10,942	353,600
Interest income									5,225
Manager's fee									(51,954)
Trust and other expenses									(9,276)
Gain on disposed property company									299,695
Change in fair value of investment properties									295,697
Change in fair value of derivative financial instruments									(18,050)
Finance costs									(86,775)
Profit before taxation and transactions with unitholders									788,162

For the year ended 31 December 2016

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip street	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue in Hong Kong	128,006	89,187	39,599	29,660	67,114	46,705	37,535	15,120	452,926
Segment profit	102,294	73,724	31,310	24,225	53,455	33,726	27,996	11,117	357,847
Interest income									24
Manager's fee									(53,426)
Trust and other expenses									(15,805)
Change in fair value of investment properties									345,334
Change in fair value of derivative financial instruments									45,242
Finance costs									(76,115)
Profit before taxation and transactions with unitholders									603,101

(5) Trust and other expenses:

	2017 HK\$'000	2016 HK\$'000
Acquisition expenses	-	6,895
Audit fee	272	204
Back-office support service fee	64	128
Bank charges	1,700	1,789
Legal and professional fees	805	579
Public relations-related expenses	397	303
Registrar fee	600	600
Trust administrative expenses	2,323	2,123
Trustee's fee	3,115	3,184
	<u>9,276</u>	<u>15,805</u>

(6) Finance costs:

	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
Secured term loan	58,546	51,982
Unsecured term loans	18,416	11,686
Equalisation of interest expense through interest rate swaps	9,801	11,810
	<u>86,763</u>	<u>75,478</u>
Secured revolving loan	12	637
	<u>86,775</u>	<u>76,115</u>

(7) Taxation:

	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	26,910	23,871
Over-provision in prior year	(397)	(431)
Deferred tax	13,224	14,417
	<u>39,737</u>	<u>37,857</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\$748,425,000 (2016: HK\$565,244,000) by the weighted average of 1,465,575,357 (2016: 1,449,792,732) 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>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	432	1,058
Deposit receivable for assets classified as held for sale	-	30,000
Deposit and prepayments	8,235	8,274
	<u>8,667</u>	<u>39,332</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>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	178	129
2 – 3 months	254	929
	<u>432</u>	<u>1,058</u>

(10) Trade and other payables:

	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,495	2,082
Deposits received as earnest money	-	30,000
Tenants' deposits		
- Outside parties	138,356	131,395
- Related parties	779	774
Rental received in advance		
- Outside parties	3,589	4,195
Other payables	41,556	44,118
	<u>185,775</u>	<u>212,564</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>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	473	421
2 – 3 months	357	1,055
Over 3 months	665	606
	<u>1,495</u>	<u>2,082</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\$83,245,000 (2016: HK\$84,789,000).

(11) Borrowings:

	<i>2017</i>	<i>2016</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured term loan	-	2,070,000
Unsecured term loans	2,340,000	800,000
Bank facility origination fees	(36,055)	(36,692)
	<u>2,303,945</u>	<u>2,833,308</u>
Secured revolving loan	-	20,000
	<u>2,303,945</u>	<u>2,853,308</u>
Carrying amount repayable:		
Within one year	-	20,000
Within a period of more than two years but not exceeding five years	<u>2,303,945</u>	<u>2,833,308</u>
	<u>2,303,945</u>	<u>2,853,308</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
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	<u>16,815,315</u>	<u>51,843</u>
Balance as at 31 December 2016	1,453,669,230	3,091,413
Payment of manager's base fee and variable fee through issuance of new units during the year	<u>15,726,217</u>	<u>51,130</u>
Balance as at 31 December 2017	<u>1,469,395,447</u>	<u>3,142,543</u>

(13) Investment properties:

	<i>31 Dec 2017</i> <i>HK\$'000</i>	<i>31 Dec 2016</i> <i>HK\$'000</i>
<b>Fair value</b>		
At the beginning of the year	10,183,000	10,419,000
Additional expenditure	11,303	12,666
Change in fair value of investment properties	295,697	345,334
Transfer to assets of a disposal group		
classified as held for sale	-	(594,000)
At the end of the year	<u>10,490,000</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 HFL 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.

Analysis of assets and liabilities over which control was lost:

	<i>Upon disposal</i> <i>HK\$'000</i>	<i>2016</i> <i>HK\$'000</i>
Investment properties	594,000	594,000
Trade and other receivables	240	114
Bank balances and cash	-	1,446
Trade and other payables	(10,141)	(10,745)

Amount due to related companies	-	(825)
Deferred tax liabilities	(12,443)	(10,399)
Net assets disposed/Net assets	<u>571,656</u>	<u>573,591</u>

Gain on disposal of a property company is determined as follows:

Consideration received	877,378
Less: Transaction cost incurred	(1,598)
Less: Divestment fee	(4,429)
Less: Net assets disposal	<u>(571,656)</u>
	<u>299,695</u>

Net cash inflow arising on disposal is as follows:

Net proceeds from disposal	<u>871,351</u>
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During the year ended 31 December 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 1,469,395,447 units in issue as at 31 December 2017 (1,453,669,230 units in issue as at 31 December 2016).
- (15) At the end of the Reporting Year, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$35,555,000 (2016: net current assets of HK\$303,138,000) and the Group's total assets less current liabilities amounted to HK\$10,545,896,000 (2016: HK\$10,524,574,000).
- (16) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.
- (17) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.

*The directors of the REIT Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Wong Lai Hung as Executive Director; Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam as Independent Non-executive Directors.*