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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

2019 INTERIM RESULTS ANNOUNCEMENT

Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended, varied and supplemented from time to time (the “**Trust Deed**”) between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the “**REIT Manager**”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT (the “**Trustee**”). Prosperity REIT was the first private sector real estate investment trust (“**REIT**”) to list on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 December 2005 (the “**Listing Date**”). Prosperity REIT currently owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2019 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2018 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2019</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2018</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0933	HK\$0.0920	1.4%

<u>Key financial figures</u>	<u>As at 30 Jun 2019</u> <u>(unaudited)</u>	<u>As at 31 Dec 2018</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$5.76	HK\$5.74	0.3%
Property valuation	HK\$11,110 million	HK\$10,990 million	1.1%
Gearing ratio¹	20.3%	20.6%	(0.3%) ²

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2019</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2018</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$230.2 million	HK\$221.1 million	4.1%
Net property income	HK\$183.7 million	HK\$176.5 million	4.1%
Average effective unit rent	HK\$25.06 per sq. ft.	HK\$24.58 per sq. ft.	2.0%
Occupancy rate <i>(as at 30 June)</i>	97.4%	96.0%	1.4% ²
Cost-to-revenue ratio	20.2%	20.2%	0% 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 2019, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 30 June 2019, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2019, was as follows:

	Location	Gross rentable area <i>sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ million</i>	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	3,370	98.3%
Prosperity Millennia Plaza	North Point	217,955	43	2,290	98.8%
9 Chong Yip Street	Kwun Tong	136,595	68	1,150	98.9%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,885	96.2%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,120	93.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	935	97.6%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	360	100.0%
Total		<u>1,275,153</u>	<u>498</u>	<u>11,110</u>	<u>97.4%</u>

During the six months ended 30 June 2019, the global market has undergone economic and political uncertainties.

The US-China trade negotiations and Brexit concerns resulted in the capital market volatility. Under this backdrop, China GDP slowed to 6.2% in the second quarter of 2019 from 6.4% in the first quarter, albeit still in line with the market expectation. Economic data from US has been mixed, but overall economic activities have remained steady. The Federal Reserve has halted the interest rate hikes in the first half of 2019 and announced a cut of 0.25%, on 31 July 2019, for the first time in more than a decade.

In Hong Kong, the overall economy was impacted by the US-China trade negotiations and the local social movement. GDP recorded a 0.6% growth in the second quarter of 2019. In the office leasing market, the leasing momentum has waned in general. Rental growth in Central has been flat. Tenants become more cautious in business outlook and in making a leasing decision. Nevertheless, trend of decentralization has continued. Our portfolio has benefited from this trend and achieved positive overall performance.

During the Reporting Period, Prosperity REIT achieved a rental reversion rate of 8.8%, complemented with a stable occupancy rate of 97.4%. The average effective unit rent of Prosperity REIT's portfolio increased 2.0% to HK\$25.06 per sq. ft.. This solid performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services.

Meanwhile, the REIT Manager has implemented effective measures to increase its operational efficiency, enabling Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 20.2% for the Reporting Period.

As at 30 June 2019, Prosperity REIT's gearing ratio remained at a healthy level of 20.3% (31 December 2018: 20.6%), 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 is a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties is another 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 The Metropolis Tower, Prosperity Place and 9 Chong Yip Street.

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 match with the security standard of an anchor banking institution tenant, lift card access system has been installed in all passenger and cargo lifts. Additional surveillance cameras were installed as well.

Prosperity Place

Prosperity Place is located in the Kwun Tong district of Kowloon East. The district has recently experienced tremendous growth as a new commercial hub. A projected type outdoor light box has been installed on the lower portion of building façade in order to capture the high traffic flow on Hoi Yuen Road and also generate more revenue.

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. Considering higher running and maintenance costs of the existing aging variable refrigerant volume split type air conditioning system, we have replaced the whole system with new one in order to upkeep a reliable and efficient air-conditioning provision for the common lobbies and corridors.

Outlook

Global economy has been overshadowed by the US-China trade negotiations, Brexit and geopolitical tensions in the first half of 2019. According to the estimate of the International Monetary Fund, the global economic growth will slow down to 3.2% this year from the earlier estimate of 3.5%.

China and US have recently agreed to restart negotiations, but the progress is still clouded with uncertainty. The Fed's interest rate policy had pivoted from the previous stance of hiking interest rates to a more 'patient' stance, with recent rate cut of 0.25%. The geopolitical uncertainties and economic volatility have made the economic outlook wavered.

Looking ahead, Hong Kong faces multiple challenges and external difficulties. Yet, there are business opportunities on the back of China-Hong Kong infrastructure development.

Prosperity REIT has demonstrated the ability to capture market opportunities and to effectively manage the operation throughout different economic cycles. With a strong presence in the Kowloon East district, Prosperity REIT is well-positioned to gain further benefits from the Kowloon East transformation. Under 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.

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	57,500	12,229	69,729	57,119
Prosperity Millennia Plaza	39,780	7,827	47,607	39,188
9 Chong Yip Street	17,693	2,154	19,847	15,252
Commercial				
Prosperity Place	37,738	238	37,976	30,177
Industrial/Office				
Trendy Centre	22,146	3,359	25,505	18,934
Prosperity Center (portion)	19,126	1,768	20,894	16,383
Industrial				
New Treasure Centre (portion)	7,548	1,089	8,637	6,603
Total	201,531	28,664	230,195	183,656

Revenue

During the Reporting Period, revenue increased to HK\$230.2 million, being HK\$9.1 million or 4.1% higher than the last corresponding half year. The increase was mainly due to the increase of rental income in our flagship property, The Metropolis Tower.

Net Property Income

For the Reporting Period, the net property income was HK\$183.7 million, being HK\$7.2 million or 4.1% higher than the last corresponding half year mainly as a result of the increase in revenue. The cost-to-revenue ratio was 20.2%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$139.8 million, representing a DPU of HK\$0.0933. This represents an annualized distribution yield of 5.5%³. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT

³ Based on Prosperity REIT's closing unit price of HK\$3.41 as at 28 June 2019.

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\$4.0 million (equivalent to HK\$0.0026 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 2019, 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**").

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 30 June 2019.

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

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2019, the interest costs for approximately 50% (31 December 2018: 50%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 20.3% as at 30 June 2019 (31 December 2018: 20.6%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.2% as at 30 June 2019 (31 December 2018: 25.1%).

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\$116.3 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,990,000	10,490,000
Additional expenditure	3,680	12,118
Change in fair value of investment properties	116,320	487,882
Fair value at the end of the period/year	<u>11,110,000</u>	<u>10,990,000</u>

Charges on Assets

As at 30 June 2019, 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 HK\$800 Million Facility.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 21,005,140 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 the 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 Tuesday, 20 August 2019 to Wednesday, 21 August 2019, 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 Monday, 19 August 2019. The payment date of interim distribution will be on Thursday, 29 August 2019.

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 2019.

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 Saturday, 31 August 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		<i>Six months ended 30 June</i>	
		<i>2019</i>	<i>2018</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	230,195	221,104
Property management fees		(5,628)	(5,439)
Property operating expenses		(40,911)	(39,188)
Total property operating expenses		<u>(46,539)</u>	<u>(44,627)</u>
Net property income		183,656	176,477
Interest income		3,062	2,191
Manager's fee		(27,429)	(26,411)
Trust and other expenses	5	(4,291)	(4,276)
Change in fair value of investment properties		116,320	305,454
Change in fair value of derivative financial instruments		(20,824)	15,449
Finance costs	6	<u>(32,185)</u>	<u>(28,532)</u>
Profit before taxation and transactions with unitholders		218,309	440,352
Taxation	7	<u>(20,078)</u>	<u>(18,535)</u>
Profit for the period, before transactions with unitholders		198,231	421,817
Distribution to unitholders		<u>(139,770)</u>	<u>(136,263)</u>
Profit for the period, after transactions with unitholders		58,461	285,554
Total comprehensive income for the period, after transactions with unitholders		<u>58,461</u>	<u>285,554</u>
Income available for distribution to unitholders		<u>139,770</u>	<u>136,263</u>
Basic earnings per unit (HK\$)	8	<u>0.13</u>	<u>0.29</u>

DISTRIBUTION STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period, before transactions with unitholders	198,231	421,817
Adjustments:		
Manager's fee	26,838	25,836
Change in fair value of investment properties	(116,320)	(305,454)
Change in fair value of derivative financial instruments	20,824	(15,449)
Finance costs	3,963	3,963
Deferred tax	6,234	5,550
Income available for distribution (note (i))	139,770	136,263
Distributions to unitholders:		
For the six months ended 30 June	139,770	136,263
Distribution per unit (HK\$) (note (ii))	0.0933	0.0920

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\$26,838,000 (2018: HK\$25,836,000) out of the total manager's fee of HK\$27,429,000 (2018: HK\$26,411,000) (the difference of HK\$591,000 (2018: HK\$575,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$116,320,000 (2018: HK\$305,454,000), loss on fair value change of derivative financial instruments of HK\$20,824,000 (2018: a gain of HK\$15,449,000);

- (c) adjustment in respect of the difference between the accounting finance costs of HK\$32,185,000 (2018: HK\$28,532,000) and the cash finance costs of HK\$28,222,000 (2018: HK\$24,569,000); and
 - (d) deferred tax provision of HK\$6,234,000 (2018: HK\$5,550,000).
- (ii) The DPU of HK\$0.0933 (2018: HK\$0.0920) is calculated based on Prosperity REIT's income available for distribution of HK\$139,770,000 (2018: HK\$136,263,000) over 1,498,090,958 units (2018: 1,481,179,523 units), representing units in issue as at 30 June 2019 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 2019

		30 Jun 2019 HK\$'000 (unaudited)	31 Dec 2018 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	11,110,000	10,990,000
Derivative financial instruments		7,662	21,065
		11,117,662	11,011,065
Current assets			
Derivative financial instruments		-	1,206
Trade and other receivables	9	15,734	15,016
Bank balances and cash		373,972	358,736
Total current assets		389,706	374,958
Total assets		11,507,368	11,386,023
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		6,215	-
Term loans	11	2,315,899	2,311,936
Deferred tax liabilities		203,613	197,379
Total non-current liabilities, excluding net assets attributable to unitholders		2,525,727	2,509,315
Current liabilities			
Trade and other payables	10	193,595	192,941
Amounts due to related companies		9,460	11,460
Provision for taxation		15,394	1,550
Manager's fee payable		13,763	13,710
Distribution payable		139,770	132,636
Total current liabilities		371,982	352,297
Total liabilities, excluding net assets attributable to unitholders		2,897,709	2,861,612
Net assets attributable to unitholders		8,609,659	8,524,411
Units in issue ('000)	12	1,494,142	1,485,861
Net asset value per unit (HK\$) attributable to unitholders	14	5.76	5.74

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.

Other than changes in accounting policies resulting from application of the new Hong Kong Financial Reporting Standard (“**HKFRS**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as disclosed above, the application of the amendments to HKFRSs and the interpretation in the current period has had no material impacts on Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Transition and summary of effects arising from initial application of HKFRS 16

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The discounting effect had no material impact on the condensed consolidated financial statements of the Group.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

(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 Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as 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 the relevant disclosure requirements set out in Appendix C of the REIT Code.

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

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	186,326	180,503
Car park income	15,205	14,835
	<hr/>	<hr/>
	201,531	195,338
Rental related income (note)	28,664	25,766
	<hr/>	<hr/>
	230,195	221,104
	<hr/>	<hr/>

Note: Rental related income, which mainly consists of management fee income and air conditioning income which are payable by the tenants, are recognised over time as income as time elapsed when the services and facilities are provided. The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice, since the Group billed a fixed amount for each month according to the term of the relevant lease. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.

(4) Segment information:

During the Reporting Period, Prosperity REIT invested in seven (2018: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennium Plaza, 9 Chong Yip Street, 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 2019 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	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
Rental income	57,500	39,780	17,693	37,738	22,146	19,126	7,548	201,531
Rental related income	12,229	7,827	2,154	238	3,359	1,768	1,089	28,664
Segment revenue in Hong Kong	69,729	47,607	19,847	37,976	25,505	20,894	8,637	230,195
Segment profit	57,119	39,188	15,252	30,177	18,934	16,383	6,603	183,656
Interest income								3,062
Manager's fee								(27,429)
Trust and other expenses								(4,291)
Change in fair value of investment properties								116,320
Change in fair value of derivative financial instruments								(20,824)
Finance costs								(32,185)
Profit before taxation and transactions with unitholders								218,309

Six months ended 30 June 2018 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	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
Rental income	52,570	39,614	17,828	37,259	22,739	18,281	7,047	195,338
Rental related income	10,230	7,119	2,069	117	3,556	1,662	1,013	25,766
Segment revenue in Hong Kong	62,800	46,733	19,897	37,376	26,295	19,943	8,060	221,104
Segment profit	50,414	38,878	15,506	29,909	21,191	14,737	5,842	176,477
Interest income								2,191
Manager's fee								(26,411)
Trust and other expenses								(4,276)
Change in fair value of investment properties								305,454
Change in fair value of derivative financial instruments								15,449
Finance costs								(28,532)
Profit before taxation and transactions with unitholders								440,352

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	121	120
Back-office support service fee	29	29
Bank charges	708	694
Legal and professional fees	410	287
Public relations and related expenses	146	115
Registrar fee	300	300
Trust administrative expenses	942	1,164
Trustee's fee	1,635	1,567
	<hr/>	<hr/>
	4,291	4,276
	<hr/> <hr/>	<hr/> <hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Unsecured term loans	34,055	26,492
Equalisation of interest expense through interest rate swaps	(1,870)	2,040
	<hr/>	<hr/>
	32,185	28,532
	<hr/> <hr/>	<hr/> <hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	14,009	12,985
Over-provision in prior year	(165)	-
Deferred tax	6,234	5,550
	<hr/>	<hr/>
	20,078	18,535
	<hr/> <hr/>	<hr/> <hr/>

The estimated tax rate used is 16.5% for the period under review. No provision for Hong Kong Profits Tax is required for certain subsidiaries as these subsidiaries did not have any assessable profits for the period or the assessable profit is wholly absorbed by tax losses brought forward.

Deferred tax is provided on temporary differences relating to accelerated tax depreciation and tax losses using the estimated tax rate. The investment property is not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

(8) Basic earnings per unit:

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$198,231,000 (2018: HK\$421,817,000) by the weighted average of 1,494,095,074 (2018: 1,477,097,755) 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 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	1,310	1,283
Less: allowance for doubtful debts	(292)	(54)
	<hr/> 1,018	<hr/> 1,229
Deposits, prepayments and other receivables	14,716	13,787
	<hr/> 15,734	<hr/> 15,016
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>30 Jun 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	189	86
1 – 3 months	670	1,143
Over 3 months	159	-
	<hr/> 1,018	<hr/> 1,229
	<hr/> <hr/>	<hr/> <hr/>

(10) Trade and other payables:

	<i>30 Jun 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,325	3,425
Tenants' deposits		
- Outside parties	140,294	140,870
- Related parties	3,275	3,181
Rental received in advance		
- Outside parties	4,661	5,086
Other payables	43,040	40,379
	<hr/>	<hr/>
	193,595	192,941
	<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 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	1,480	763
1 – 3 months	371	2,049
Over 3 months	474	613
	<hr/>	<hr/>
	2,325	3,425
	<hr/> <hr/>	<hr/> <hr/>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. 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\$92,471,030 as at 30 June 2019 (31 December 2018: HK\$95,343,000).

(11) Borrowings:

	<i>30 Jun 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(24,101)	(28,064)
	<u>2,315,899</u>	<u>2,311,936</u>
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	<u>2,315,899</u>	<u>2,311,936</u>
	<u>2,315,899</u>	<u>2,311,936</u>

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2018	1,469,395,447	3,142,543
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>16,465,518</u>	<u>51,987</u>
Balance as at 31 December 2018	1,485,860,965	3,194,530
Payment of Manager's base fee and variable fee through issuance of new units during the period	<u>8,281,397</u>	<u>26,787</u>
Balance as at 30 June 2019	<u>1,494,142,362</u>	<u>3,221,317</u>

(13) Investment properties:

	<i>30 Jun 2019</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2018</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,990,000	10,490,000
Additional expenditure	3,680	12,118
Change in fair value of investment properties	<u>116,320</u>	<u>487,882</u>
Fair value at the end of the period/year	<u><u>11,110,000</u></u>	<u><u>10,990,000</u></u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,494,142,362 units in issue as at 30 June 2019 (31 December 2018: 1,485,860,965 units).
- (15) At the end of the Reporting Period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$17,724,000 (31 December 2018: HK\$22,661,000) and the Group's total assets less current liabilities amounted to HK\$11,135,386,000 (31 December 2018: HK\$11,033,726,000).
- (16) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager, and by Prosperity REIT's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 2 August 2019

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.