

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2019

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 audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2019 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2018 as follows:

Performance Highlights

	<u>Year ended 31 Dec 2019</u>	<u>Year ended 31 Dec 2018</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.1828	HK\$0.1810	1.0%

<u>Key financial figures</u>	<u>As at 31 Dec 2019</u>	<u>As at 31 Dec 2018</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$5.75	HK\$5.74	0.2%
Property valuation	HK\$11,126 million	HK\$10,990 million	1.2%
Gearing ratio ¹	20.3%	20.6%	(0.3%) ²

<u>Operation data</u>	<u>Year ended 31 Dec 2019</u>	<u>Year ended 31 Dec 2018</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$462.3 million	HK\$446.8 million	3.5%
Net property income	HK\$365.9 million	HK\$350.8 million	4.3%
Average effective unit rent	HK\$25.18 per sq.ft.	HK\$24.68 per sq.ft.	2.0%
Occupancy rate (as at 31 Dec)	97.3%	97.6%	(0.3%) ²
Cost-to-revenue ratio	20.9%	21.5%	(0.6%) 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.

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 2019. 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

Despite the ongoing US-China trade talks and the local social incident in Hong Kong in 2019, the performance of Prosperity REIT remained resilient.

Both distributable income and distribution per unit (“DPU”) registered marginal growth. We also saw steady year-on-year (“YoY”) growth in net asset value per unit and property valuation by 0.2% and 1.2% to HK\$5.75 and HK\$11,126 million respectively.

In light of these results, I am pleased to announce that our Unitholders will receive a DPU of HK\$0.0895 per unit for the second half representing total DPU of HK\$0.1828 for the year ended 31 December 2019.

Market Review

The US-China trade talks have brought headwinds and pressure to the Hong Kong economy, given our close correlation with China.

Hong Kong's GDP has been further impacted by the social incident battering domestic demands since mid of 2019 and experienced downward pressure with the 2019 full year GDP decreased by 1.2%, the first annual contraction in a decade.

On the other hand, despite the challenging situation, China's economic growth still managed to maintain a stable and positive growth of 6.1%.

Operations Review

Loomed by the uncertain business environment arising from external trade and domestic issues, we managed to keep stable the topline revenue and net property income. Rental reversion was positive, while occupancy rates remained stable. Our portfolio continues to leverage on the decentralization trend in the Hong Kong office market.

Outlook

Hong Kong economy is at a pivotal moment affected by both external and domestic factors. While the US-China trade tensions will de-escalate with phase one deal signed in January 2020, local retail and hospitality business sectors are under great pressure from the prolonged local social incident. The economic sentiment is further dampened by the outbreak of the coronavirus infection in early 2020.

The outlook for the Hong Kong economy is therefore subject to high uncertainties. Leasing momentum and rental level will inextricably be affected. To mitigate the impact, we will continue to leverage on the ongoing office decentralization trend and seize the opportunities brought by the newly opened Shatin to Central Link (phase 1). Our portfolio's strong presence in the Kowloon East district and Hunghom district will benefit from the broader coverage by the new railway network.

Apart from deploying flexible leasing strategy, we will also keep our persistent prudent and proactive management approach to prepare for the challenges in the coming year. We will also continue to explore opportunities for further growth.

Acknowledgements

I would like to once again extend my sincere thanks to all those who have contributed to our success over the past year. Our staff and tenants, service providers and business partners have all played significant roles taking us forward in challenging times.

In particular, my thanks go to my fellow Board members and the management team for their continued dedication and tireless efforts.

I would like to finish by acknowledging and thanking 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, 5 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 31 December 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 31 December 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 31 December 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	99.6%
Prosperity Millennia Plaza	North Point	217,955	43	2,300	99.5%
9 Chong Yip Street	Kwun Tong	136,595	68	1,150	97.9%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,889	93.4%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,120	95.1%
Prosperity Center (portion)	Kwun Tong	149,253	105	936	97.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	361	100.0%
Total		1,275,153	498	11,126	97.3%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 97.3% as at 31 December 2019, 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 20.9%.

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.

Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at 9 Chong Yip Street, Prosperity Place and Prosperity Millennia Plaza (to be completed in February 2020). Asset enhancement initiatives will continue in 2020 across the portfolio, with prudently planned payback periods.

9 Chong Yip Street

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

Prosperity Place

A projected outdoor lightbox has been installed on the lower portion of building facade for capturing the busy street traffic attention and fostering a stronger retail image of the building. This increase the revenue as well.

Prosperity Millennia Plaza

The G/F lobby area is being renovated in order to bring the building in line with the market standard and fully reflect the strategic location of the building. The renovation work is in progress and to be completed in February 2020.

Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	115,293	24,297	139,590	113,744
Prosperity Millennia Plaza	81,990	15,591	97,581	80,426
9 Chong Yip Street	35,498	4,422	39,920	30,035
Commercial				
Prosperity Place	74,169	1,035	75,204	58,749
Industrial/Office				
Trendy Centre	44,281	6,683	50,964	37,498
Prosperity Center (portion)	38,111	3,504	41,615	32,365
Industrial				
New Treasure Centre (portion)	15,261	2,179	17,440	13,049
Total	404,603	57,711	462,314	365,866

Revenue

During the Reporting Year, revenue increased to HK\$462.3 million, being HK\$15.5 million or 3.5% higher than that of 2018. The increase was mainly due to the increase in rental income in our flagship property, The Metropolis Tower.

Net Property Income

For the Reporting Year, the net property income was HK\$365.9 million, being HK\$15.1 million or 4.3% higher than that of 2018 mainly as a result of the increase in revenue while cost is well controlled. The cost-to-revenue ratio was 20.9%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$274.7 million, representing a total DPU of HK\$0.1828. 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\$8.0 million (equivalent to HK\$0.0053 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 2019 to 31 December 2019 is HK\$134.9 million, equivalent to a DPU of HK\$0.0895. The interim DPU from 1 January 2019 to 30 June 2019 was HK\$0.0933. The total DPU for the Reporting Year is HK\$0.1828, which represents a distribution yield of 6.0%³. The DPU increased by 1.0% YoY.

The distribution for the half year from 1 July 2019 to 31 December 2019 will be paid on Tuesday, 7 April 2020.

Liquidity and Financing

As at 31 December 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**”).

³ Based on Prosperity REIT's closing unit price of HK\$3.05 as at 31 December 2019.

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 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 31 December 2019, the interest costs for approximately 70% (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 facilities origination fees, as a percentage of Prosperity REIT's gross assets was 20.3% as at 31 December 2019, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.2% as at 31 December 2019.

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\$128.1 million, based on a professional valuation performed by an independent qualified external valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 December 2019 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>
Fair value at the beginning of the year	10,990,000	10,490,000
Additional expenditure	7,888	12,118
Change in fair value of investment properties	128,112	487,882
Fair value at the end of the year	11,126,000	10,990,000

Charges on Assets

As at 31 December 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 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 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 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 Friday, 27 March 2020 to Monday, 30 March 2020, 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, 26 March 2020. The payment date of the final distribution will be on Tuesday, 7 April 2020.

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 2019.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Thursday, 30 April 2020.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 15 May 2020. 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 2019

	<i>Notes</i>	<i>2019</i> <i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Revenue	3	462,314	446,814
Property management fees		(11,288)	(10,994)
Property operating expenses		(85,160)	(85,009)
Total property operating expenses		(96,448)	(96,003)
Net property income		365,866	350,811
Interest income		5,773	4,790
Manager's fee		(55,314)	(53,610)
Trust and other expenses	5	(8,716)	(8,603)
Change in fair value of investment properties		128,112	487,882
Finance costs	6	(60,681)	(55,750)
Profit before taxation and transactions with unitholders		375,040	725,520
Taxation	7	(41,935)	(37,940)
Profit for the year, before transactions with unitholders		333,105	687,580
Distribution to unitholders		(274,651)	(268,899)
Profit for the year, after transactions with unitholders		58,454	418,681
Total comprehensive income for the year, after transactions with unitholders		58,454	418,681
Income available for distribution to unitholders		274,651	268,899
Basic earnings per unit (HK\$)	8	0.22	0.46

Distribution Statement

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Profit for the year, before transactions with unitholders	333,105	687,580
Adjustments:		
Manager's fee	54,127	52,441
Change in fair value of investment properties	(128,112)	(487,882)
Change in fair value of derivative financial instruments	(5,017)	(1,941)
Finance costs	7,991	7,991
Deferred tax	12,557	10,710
Income available for distribution (note (i))	274,651	268,899
Distributions to unitholders:		
HK\$0.0933 (2018: HK\$0.0920) per unit for the six months ended 30 June (note (ii))	139,770	136,263
HK\$0.0895 (2018: HK\$0.0890) per unit for the six months ended 31 December (note (iii))	134,881	132,636
	274,651	268,899
Total distribution per unit (HK\$)	0.1828	0.1810

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\$54,127,000 (2018: HK\$52,441,000) out of the total manager's fee of HK\$55,314,000 (2018: HK\$53,610,000) (the differences of HK\$1,187,000 (2018: HK\$1,169,000) are paid in cash);

- (b) change in fair value of investment properties of HK\$128,112,000 (2018: HK\$487,882,000);
 - (c) adjustment in respect of the accounting finance costs of HK\$60,681,000 (2018: HK\$55,750,000), by adding back gain on fair value change of derivative financial instruments of HK\$5,017,000 (2018: HK\$1,941,000) and less cash finance costs of HK\$57,707,000 (2018: HK\$49,700,000); and
 - (d) deferred tax provision of HK\$12,557,000 (2018: HK\$10,710,000).
- (ii) The distribution per unit of HK\$0.0933 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$0.0920) is calculated based on Prosperity REIT's income available for distribution of HK\$139,770,000 (six months ended 30 June 2018: HK\$136,263,000) over 1,498,090,958 units (30 June 2018: 1,481,179,523 units), representing units in issue as at 30 June 2019 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 2019. The distribution was paid to unitholders on 29 August 2019.
- (iii) The distribution per unit of HK\$0.0895 for the six months ended 31 December 2019 (six months ended 31 December 2018: HK\$0.0890) is calculated based on Prosperity REIT's income available for distribution of HK\$134,881,000 (six months ended 31 December 2018: HK\$132,636,000) over 1,507,153,680 units (31 December 2018: 1,490,179,376 units), representing units in issue as at 31 December 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 last quarter of the relevant distribution year.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	11,126,000	10,990,000
Derivative financial instruments		27,288	21,065
		<u>11,153,288</u>	<u>11,011,065</u>
Current assets			
Derivative financial instruments		-	1,206
Trade and other receivables	9	11,858	15,016
Bank balances and cash		387,084	358,736
Total current assets		<u>398,942</u>	<u>374,958</u>
Total assets		<u><u>11,552,230</u></u>	<u><u>11,386,023</u></u>
Non-current liabilities, excluding net assets attributable to unitholders			
Term loans	11	2,319,927	2,311,936
Deferred tax liabilities		209,936	197,379
Total non-current liabilities, excluding net assets attributable to unitholders		<u>2,529,863</u>	<u>2,509,315</u>
Current liabilities			
Trade and other payables	10	191,377	192,941
Amounts due to related companies		13,142	11,460
Provision for taxation		32,265	1,550
Manager's fee payable		13,948	13,710
Distribution payable		134,881	132,636
Total current liabilities		<u>385,613</u>	<u>352,297</u>
Total liabilities, excluding net assets attributable to unitholders		<u><u>2,915,476</u></u>	<u><u>2,861,612</u></u>
Net assets attributable to unitholders		<u><u>8,636,754</u></u>	<u><u>8,524,411</u></u>
Units in issue ('000)	12	<u><u>1,502,622</u></u>	<u><u>1,485,861</u></u>
Net asset value per unit (HK\$) attributable to unitholders	14	<u><u>5.75</u></u>	<u><u>5.74</u></u>

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**”)

New and amendments to HKFRSs that are mandatorily effective for the current year.

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

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 described below, the application of the amendments to HKFRSs and the interpretation 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.

In the current year, the Group has applied, for the first time, HKFRS 16 *Leases* (“**HKFRS 16**”) issued by the HKICPA which is pertinent to the Group and is mandatorily effective for annual period beginning on or after 1 January 2019 for the preparation of the Group’s consolidated financial statements. The application of HKFRS 16 results in changes to accounting policies, amounts reported and/or disclosures is described below.

HKFRS 16 Leases

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

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases under the application of HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position as at 1 January 2019. However, effective from 1

January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. 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.
- (c) Effective from 1 January 2019, the Group has applied HKFRS 15 *Revenue from Contracts with Customers* (“**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 consolidated financial statements of the Group for the current year.

The impact of applying HKFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2019 is insignificant when compared with amounts accounted for under HKAS 17.

New and amendments to HKFRSs that have been issued but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴

Amendments to HKFRS 9, Interest Rate Benchmark Reform⁴
HKAS 39 and HKFRS 7

¹ *Effective for annual periods beginning on or after 1 January 2021*

² *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

³ *Effective for annual periods beginning on or after a date to be determined*

⁴ *Effective for annual periods beginning on or after 1 January 2020*

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs still refer to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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

(2) Significant Accounting Policies:

Basis of preparation of financial statements

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the REIT Code.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, 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 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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 transacted at fair value and a valuation technique that unobservable inputs are 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.

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Prosperity REIT gains control until the date when Prosperity REIT ceases to control the subsidiary.

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.

(3) Revenue:

	2019 HK\$'000	2018 HK\$'000
Rental income	374,588	365,154
Car park income	30,015	30,234
	<u>404,603</u>	<u>395,388</u>
Rental related income	57,711	51,426
	<u>462,314</u>	<u>446,814</u>

Note: Car park income and 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 an amount that corresponds directly with the value to customer of the entity's performance completed to date on a time basis. 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 Year, Prosperity REIT invested in seven (2018: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, 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 2019

	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	115,293	81,990	35,498	74,169	44,281	38,111	15,261	404,603
Rental related income	24,297	15,591	4,422	1,035	6,683	3,504	2,179	57,711
Segment revenue in Hong Kong	139,590	97,581	39,920	75,204	50,964	41,615	17,440	462,314
Segment profit	113,744	80,426	30,035	58,749	37,498	32,365	13,049	365,866
Interest income								5,773
Manager's fee								(55,314)
Trust and other expenses								(8,716)
Change in fair value of investment properties								128,112
Finance costs								(60,681)
Profit before taxation and transactions with unitholders								375,040

For the year ended 31 December 2018

	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	106,140	80,333	36,355	75,425	45,331	37,268	14,536	395,388
Rental related income	20,184	14,321	4,117	267	7,068	3,412	2,057	51,426
Segment revenue in Hong Kong	126,324	94,654	40,472	75,692	52,399	40,680	16,593	446,814
Segment profit	97,986	77,641	30,727	60,804	40,679	30,714	12,260	350,811
Interest income								4,790
Manager's fee								(53,610)
Trust and other expenses								(8,603)
Change in fair value of investment properties								487,882
Finance costs								(55,750)
Profit before taxation and transactions with unitholders								725,520

(5) Trust and other expenses:

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Audit fee	243	239
Back-office support service fee	29	35
Bank charges	1,392	1,382
Legal and professional fees	991	802
Public relations-related expenses	236	203
Registrar fee	600	600
Trust administrative expenses	1,906	2,136
Trustee's fee	3,319	3,206
	<u>8,716</u>	<u>8,603</u>

(6) Finance costs:

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
Unsecured term loans	72,816	60,739
Interest rate swaps income realised	(7,118)	(3,048)
	<u>65,698</u>	<u>57,691</u>
Change in fair value of derivative financial instruments	(5,017)	(1,941)
	<u>60,681</u>	<u>55,750</u>

(7) Taxation:

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	30,484	27,796
Over-provision in prior year	(1,106)	(566)
Deferred tax	12,557	10,710
	<u>41,935</u>	<u>37,940</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\$333,105,000 (2018: HK\$687,580,000) by the weighted average of 1,498,382,842 (2018: 1,481,458,516) 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>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	3,162	1,283
Less: allowance for impairment	(251)	(54)
	<u>2,911</u>	<u>1,229</u>
Deposit and prepayments and other receivables	8,947	13,787
	<u>11,858</u>	<u>15,016</u>

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

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	77	86
2 – 3 months	2,834	1,143
	<u>2,911</u>	<u>1,229</u>

(10) Trade and other payables:

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,098	3,425
Tenants' deposits		
- Outside parties	141,383	140,870
- Related parties	3,450	3,181
Rental received in advance		
- Outside parties	4,972	5,086
Other payables	39,474	40,379
	<u>191,377</u>	<u>192,941</u>

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

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	823	763
2 – 3 months	887	2,049
Over 3 months	388	613
	<u>2,098</u>	<u>3,425</u>

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 Reporting Year based on the lease terms amounted to HK\$93,753,000 (2018: HK\$95,343,000).

(11) Borrowings:

	<i>2019</i>	<i>2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(20,073)	(28,064)
	<u>2,319,927</u>	<u>2,311,936</u>
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	2,319,927	2,311,936
	<u>2,319,927</u>	<u>2,311,936</u>

(12) Units in issue:		
	Number of units	<i>HK\$'000</i>
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 year	<u>16,761,036</u>	<u>53,889</u>
Balance as at 31 December 2019	<u><u>1,502,622,001</u></u>	<u><u>3,248,419</u></u>

(13) Investment properties:		
	<i>31 Dec 2019</i>	<i>31 Dec 2018</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value		
At the beginning of the year	10,990,000	10,490,000
Additional expenditure	7,888	12,118
Change in fair value of investment properties	<u>128,112</u>	<u>487,882</u>
At the end of the year	<u><u>11,126,000</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 1,502,622,001 units in issue as at 31 December 2019 (1,485,860,965 units in issue as at 31 December 2018).

(15) At the end of the Reporting Year, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$13,329,000 (2018: net current assets of HK\$22,661,000) and the Group's total assets less current liabilities amounted to HK\$11,166,617,000 (2018: HK\$11,033,726,000).

- (16) Certain comparative figures have been reclassified in these consolidated financial statements, which have no material effect on previously reported profit, to conform with the current year's presentation. For the year ended 31 December 2019 and 31 December 2018, change in fair value of derivative financial instruments has been grouped under finance costs as per note 6 instead of being presented as a line item in the consolidated statement of profit or loss and other comprehensive income.
- (17) The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA.
- (18) 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.