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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 2020**

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 would like to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2020 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2019 as follows:

**Performance Highlights**

<b><u>Distribution</u></b>	<b><u>Year ended 31 Dec 2020</u></b>	<b><u>Year ended 31 Dec 2019</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Income available for distribution	HK\$272.9 million	HK\$274.7 million	(0.7%)
Distribution per unit (“DPU”)	HK\$0.1791	HK\$0.1828	(2.0%)

<b><u>Operation data</u></b>	<b><u>Year ended 31 Dec 2020</u></b>	<b><u>Year ended 31 Dec 2019</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Revenue	HK\$452.9 million	HK\$462.3 million	(2.0%)
Net property income	HK\$358.0 million	HK\$365.9 million	(2.2%)
Occupancy rate (as at 31 Dec)	96.1%	97.3%	(1.2%) <sup>2</sup>
Cost-to-revenue ratio	20.9%	20.9%	0%

<b><u>Key financial figures</u></b>	<b><u>As at 31 Dec 2020</u></b>	<b><u>As at 31 Dec 2019</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Net asset value per unit	HK\$4.95	HK\$5.75	(13.9%)
Property valuation	HK\$10,147 million	HK\$11,126 million	(8.8%)
Gearing ratio <sup>1</sup>	22.3%	20.3%	2.0% <sup>2</sup>

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

<sup>2</sup> Absolute change.

**Distribution**

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2020. 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 a slowdown in the global economy and uncertain market conditions, largely due to the global pandemic of COVID-19, the performance of Prosperity REIT remained resilient.

Amid challenging market conditions, Prosperity REIT registered a marginal drop in distributable income and distribution per unit (“DPU”). Property valuation broadly followed the market in adjusting downward, and dropped by 8.8% to HK\$10,147 million.

In light of these results, our Unitholders will receive a DPU of HK\$0.0892 per unit for the second half of the year representing a total DPU of HK\$0.1791 for the year ended 31 December 2020.

**Market Review**

Hong Kong underwent a year of challenges in 2020 on the backdrop of the US-China trade tension and the COVID-19 pandemic. With the various business and employment stimulus measures implemented by the Government, the negative GDP growth had gradually narrowed towards the year-end, despite the closure order on respective businesses and social distancing restrictions that had impacted local economy. The unemployment rate of 6.6% in the last quarter of 2020 hit a 16-year high under the fourth wave of local epidemic prevalent from November.

In the US, the economic outlook under President Biden remains uncertain. Overshadowing concerns remain US-China relations, US economic recovery along with the progress of COVID-19 vaccines, while Fed rates stayed close to zero.

Although China experienced a slowdown in economic growth, it still registered positive growth overall, being the only nation with positive GDP growth in global economy. This is due to the stringent and effective measures adopted to contain the COVID-19 pandemic expediting the pace of economic recovery.

## **Operations Review**

With local business severely impacted by the tightened coronavirus restrictions, we have rendered support to our tenants. Multiple relief measures are offered on a case-by-case basis.

Amidst a volatile economy, our portfolio continues to leverage on the decentralization trend in Hong Kong office market. Shadowed by the uncertain economic outlook, corporate tenants would look for cost-saving strategies by space reconfiguration, office relocation to more affordable rent buildings due to a change of business model or operation consolidation. Our portfolio occupancy remained robust and stood at a stable level at 96.1% as at the end of the Reporting Year.

On property management side, the health and safety of our tenants and staff is of utmost importance. Since the outbreak of COVID-19 in early 2020, the property management team responded quickly in implementing various preventive measures in our properties.

## **Outlook**

In 2021, Hong Kong economy will continue to face headwinds from the intermittent resurgence of the pandemic, the uncertainties of the US-China relations, the post Brexit impact, coupled with geopolitical tensions. In the meantime, the low interest rate environment is unlikely to change until momentum in the economy gains more strength. The progress and effectiveness of COVID-19 vaccines remain key to rebuild confidence in investments.

Within our portfolio, Kowloon East has become a more mature commercial hub, thanks in part to being prioritised by corporates looking for quality office space and cost-saving measures. We will continue to seize the opportunities brought by the office decentralization trend and the forthcoming full opening of Shatin-to-Central Link.

Apart from deploying flexible leasing strategy, we will keep our persistent prudent and proactive management approach to prepare for the challenge in the coming year.

### **Achievements and Acknowledgements**

To demonstrate our commitment to assimilate sustainability into our business culture and operations, we have formulated “Vision 2030” and corresponding action plans. Multiple ESG initiatives were implemented. Prosperity Millennia Plaza has achieved the rating “Excellent” under BEAM Plus (Energy Use).

I would like to extend my sincere thanks to our staff, tenants, service providers and business partners who have all played significant roles taking us forward, in often challenging times.

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

Last but not least, I would like to finish by acknowledging and thanking all our Unitholders. Your continuing support for 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, 4 March 2021

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 2020, 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 2020, 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 2020, was as follows:

	<b>Location</b>	<b>Gross rentable area</b> <i>sq. ft.</i>	<b>No. of car park spaces</b>	<b>Valuation</b> <i>HK\$ million</i>	<b>Occupancy rate</b>
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,080	96.6%
Prosperity Millennia Plaza	North Point	217,955	43	2,139	94.7%
9 Chong Yip Street	Kwun Tong	136,595	68	1,032	98.9%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,684	98.4%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,036	94.4%
Prosperity Center (portion)	Kwun Tong	149,253	105	848	90.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	328	100.0%
<b>Total</b>		<b>1,275,153</b>	<b>498</b>	<b>10,147</b>	<b>96.1%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 96.1% as at 31 December 2020, 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, the G/F lobby area of Prosperity Millennia Plaza has been renovated in order to bring the building in line with the market standard and fully reflect the strategic location of the building.

Asset enhancement initiatives will continue in 2021 across the portfolio, with prudently planned payback periods. The notable project will be the facelifting of the ground floor lobby of The Metropolis Tower, with an aim to incorporate building technology and design to offer a sustainable green working environment for our tenants. The uplift building image will enhance our marketing edge on top of the capitalization of the upcoming final phase completion between Hung Hom and Admiralty of the Shatin-to-Central Link in 2022.

## **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	114,178	23,974	138,152	115,082
Prosperity Millennia Plaza	78,986	15,174	94,160	76,355
9 Chong Yip Street	34,929	4,619	39,548	30,785
<b>Commercial</b>				
Prosperity Place	68,115	4,652	72,767	56,224
<b>Industrial/Office</b>				
Trendy Centre	45,086	7,521	52,607	39,403
Prosperity Center (portion)	35,110	3,529	38,639	28,113
<b>Industrial</b>				
New Treasure Centre (portion)	14,814	2,207	17,021	12,076
<b>Total</b>	<b>391,218</b>	<b>61,676</b>	<b>452,894</b>	<b>358,038</b>

### **Revenue**

During the Reporting Year, revenue decreased to HK\$452.9 million, being HK\$9.4 million or 2.0% lower than that of 2019. The decrease was mainly due to the adverse market conditions and impacts from COVID-19 since the second quarter.

### **Net Property Income**

For the Reporting Year, the net property income was HK\$358.0 million, being HK\$7.9 million or 2.2% lower than that of 2019 mainly as a result of the decrease in revenue. 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\$272.9 million, representing a total DPU of HK\$0.1791. 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 2020 to 31 December 2020 is HK\$136.4 million, equivalent to a DPU of HK\$0.0892. The interim DPU from 1 January 2020 to 30 June 2020 was HK\$0.0899. The total DPU for the Reporting Year is HK\$0.1791, which represents a distribution yield of 7.4%<sup>3</sup>. The DPU decreased by 2.0% YoY.

The distribution for the half year from 1 July 2020 to 31 December 2020 will be paid on 7 April 2021 (Wednesday).

### Liquidity and Financing

As at 31 December 2020, 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>3</sup> Based on Prosperity REIT's closing unit price of HK\$2.42 as at 31 December 2020.

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 2020.

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 2020, the interest costs for approximately 70% (31 December 2019: 70%) 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 22.3% as at 31 December 2020 (31 December 2019: 20.3%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 28.2% as at 31 December 2020 (31 December 2019: 25.2%).

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 loss of HK\$982.9 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited (2019: Colliers International (Hong Kong) Limited). The movements of fair values are tabulated below:

	31 December 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>
Fair value at the beginning of the year	11,126,000	10,990,000
Additional expenditure	3,856	7,888
Change in fair value of investment properties	(982,856)	128,112
Fair value at the end of the year	10,147,000	11,126,000

### Charges on Assets

As at 31 December 2020, 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 10,824,000 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 23 March 2021 (Tuesday) to 24 March 2021 (Wednesday), 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 22 March 2021 (Monday). The payment date of the final distribution will be on 7 April 2021 (Wednesday).

#### **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 2020.

#### **ISSUANCE OF ANNUAL REPORT**

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before 30 April 2021 (Friday).

#### **ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on 21 May 2021 (Friday). 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 2020*

	<i>Notes</i>	<i>2020</i> <i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Revenue	3	452,894	462,314
Property management fees		(10,977)	(11,288)
Property operating expenses		(83,879)	(85,160)
Total property operating expenses		(94,856)	(96,448)
<b>Net property income</b>		358,038	365,866
Interest income		4,572	5,773
Manager's fee		(53,267)	(55,314)
Trust and other expenses	5	(8,149)	(8,716)
Change in fair value of investment properties		(982,856)	128,112
Finance costs	6	(152,981)	(60,681)
<b>(Loss)/Profit before taxation and transactions with unitholders</b>		(834,643)	375,040
Taxation	7	(39,858)	(41,935)
<b>(Loss)/Profit for the year, before transactions with unitholders</b>		(874,501)	333,105
Distribution to unitholders		(272,922)	(274,651)
<b>(Loss)/Profit for the year, after transactions with unitholders</b>		(1,147,423)	58,454
<b>Total comprehensive (expense) income for the year, after transactions with unitholders</b>		(1,147,423)	58,454
<b>Income available for distribution to unitholders</b>		272,922	274,651
<b>Basic (loss)/earning per unit (HK\$)</b>	8	(0.58)	0.22

## Distribution Statement

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>(Loss) / Profit for the year, before transactions with unitholders</b>	<b>(874,501)</b>	<b>333,105</b>
Adjustments:		
Manager's fee	52,123	54,127
Change in fair value of investment properties	982,856	(128,112)
Change in fair value of derivative financial instruments	94,320	(5,017)
Finance costs	8,013	7,991
Deferred tax	10,111	12,557
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>272,922</b>	<b>274,651</b>
<b>Distributions to unitholders:</b>		
HK\$0.0899 (2019: HK\$0.0933) per unit for the six months ended 30 June (note (ii))	136,513	139,770
HK\$0.0892 (2019: HK\$0.0895) per unit for the six months ended 31 December (note (iii))	136,409	134,881
	<hr/>	<hr/>
	<b>272,922</b>	<b>274,651</b>
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<b>Total distribution per unit (HK\$)</b>	<b>0.1791</b>	<b>0.1828</b>

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\$52,123,000 (2019: HK\$54,127,000) out of the total manager's fee of HK\$53,267,000 (2019: HK\$55,314,000) (the differences of HK\$1,144,000 (2019: HK\$1,187,000) are paid in cash);

- (b) change in fair value of investment properties of HK\$982,856,000 (2019: a gain of HK\$128,112,000) and loss on fair value change of derivative financial instruments of HK\$94,320,000 (2019: a gain of HK\$5,017,000);
  - (c) adjustment in respect of the accounting finance costs of HK\$152,981,000 (2019: HK\$60,681,000), less loss on fair value change of derivative financial instruments of HK\$94,320,000 (2019: a gain of HK\$5,017,000) and the cash finance costs of HK\$50,648,000 (2019: HK\$57,707,000); and
  - (d) deferred tax provision of HK\$10,111,000 (2019: HK\$12,557,000).
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- (ii) The distribution per unit of HK\$0.0899 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$0.0933) is calculated based on Prosperity REIT's income available for distribution of HK\$136,513,000 (six months ended 30 June 2019: HK\$139,770,000) over 1,518,303,244 units (30 June 2019: 1,498,090,958 units), representing units in issue as at 30 June 2020 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 2020. The distribution was paid to unitholders on 9 September 2020.
  - (iii) The distribution per unit of HK\$0.0892 for the six months ended 31 December 2020 (six months ended 31 December 2019: HK\$0.0895) is calculated based on Prosperity REIT's income available for distribution of HK\$136,409,000 (six months ended 31 December 2019: HK\$134,881,000) over 1,529,288,611 units (31 December 2019: 1,507,153,680 units), representing units in issue as at 31 December 2020 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 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	13	10,147,000	11,126,000
Derivative financial instruments		-	27,288
		<u>10,147,000</u>	<u>11,153,288</u>
<b>Current assets</b>			
Trade and other receivables	9	13,029	11,858
Bank balances and cash		351,788	387,084
Total current assets		<u>364,817</u>	<u>398,942</u>
<b>Total assets</b>		<u><u>10,511,817</u></u>	<u><u>11,552,230</u></u>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		46,001	-
Borrowings	11	1,529,669	2,319,927
Deferred tax liabilities		220,047	209,936
Total non-current liabilities, excluding net assets attributable to unitholders		<u>1,795,717</u>	<u>2,529,863</u>
<b>Current liabilities</b>			
Derivative financial instruments		21,031	-
Trade and other payables	10	187,685	191,377
Amounts due to related companies		6,980	13,142
Borrowings	11	798,271	-
Provision for taxation		10,347	32,265
Manager's fee payable		12,871	13,948
Distribution payable		136,409	134,881
Total current liabilities		<u>1,173,594</u>	<u>385,613</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<u>2,969,311</u>	<u>2,915,476</u>
<b>Net assets attributable to unitholders</b>		<u><u>7,542,506</u></u>	<u><u>8,636,754</u></u>
<b>Units in issue ('000)</b>	12	1,524,068	1,502,622
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	14	4.95	5.75



## 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 Amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”)

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

The Group has applied the *Amendments to References to the Conceptual Framework* in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework* in HKFRSs Standards and other 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.

## Impacts on Application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year has no impact on the consolidated financial statements.

### **New HKFRS and amendments to HKFRSs in issue but not yet effective**

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

HKFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendments to HKFRS 16	Covid-19 Related Rent Concessions <sup>4</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>5</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 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 <sup>2</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2023.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2022.*

<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 June 2020.*

<sup>5</sup> *Effective for annual periods beginning on or after 1 January 2021.*

The REIT Manager anticipates that the application of all new and amendments to HKFRSs will have no material effect on the consolidated financial statements in the foreseeable future.

(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:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	363,860	374,588
Car park income	27,358	30,015
	<u>391,218</u>	<u>404,603</u>
Rental related income	61,676	57,711
	<u>452,894</u>	<u>462,314</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in seven (2019: 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 2020*

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	114,178	78,986	34,929	68,115	45,086	35,110	14,814	391,218
Rental related income	23,974	15,174	4,619	4,652	7,521	3,529	2,207	61,676
Segment revenue in Hong Kong	138,152	94,160	39,548	72,767	52,607	38,639	17,021	452,894
Segment profit	115,082	76,355	30,785	56,224	39,403	28,113	12,076	358,038
Interest income								4,572
Manager's fee								(53,267)
Trust and other expenses								(8,149)
Change in fair value of investment properties								(982,856)
Finance costs								(152,981)
Loss before taxation and transactions with unitholders								(834,643)

*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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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

(5) Trust and other expenses:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Audit fee	206	243
Back-office support service fee	-	29
Bank charges	1,397	1,392
Legal and professional fees	571	991
Public relations-related expenses	253	236
Registrar fee	600	600
Trust administrative expenses	1,883	1,906
Trustee's fee	3,239	3,319
	<u>8,149</u>	<u>8,716</u>

(6) Finance costs:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on bank borrowings	53,873	72,816
Interest rate swaps expenses / (income) realised	4,788	(7,118)
	<u>58,661</u>	<u>65,698</u>
Change in fair value of derivative financial instruments	94,320	(5,017)
	<u>152,981</u>	<u>60,681</u>

(7) Taxation:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	30,725	30,484
Over-provision in prior year	(978)	(1,106)
Deferred tax	10,111	12,557
	<u>39,858</u>	<u>41,935</u>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2019: 16.5%) for the year ended 31 December 2020.

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 (loss)/earning per unit is calculated by dividing the loss for the year, before transactions with unitholders of HK\$874,501,000 (2019: profit of HK\$333,105,000) by the weighted average of 1,518,353,207 (2019: 1,498,382,842) 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>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	5,774	3,162
Less: allowance for credit losses	(1,414)	(251)
	<u>4,360</u>	<u>2,911</u>
Deposit and prepayments and other receivables	8,669	8,947
	<u>13,029</u>	<u>11,858</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>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	153	77
2 – 3 months	4,207	2,834
	<u>4,360</u>	<u>2,911</u>



(10) Trade and other payables:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,960	2,098
Tenants' deposits		
- Outside parties	137,077	141,383
- Related parties	3,596	3,450
Rental received in advance		
- Outside parties	5,869	4,972
Other payables	39,183	39,474
	<u>187,685</u>	<u>191,377</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>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	715	823
2 – 3 months	607	887
Over 3 months	638	388
	<u>1,960</u>	<u>2,098</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\$82,205,000 (2019: HK\$93,753,000).

(11) Borrowings:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(12,060)	(20,073)
	<u>2,327,940</u>	<u>2,319,927</u>

Carrying amount repayable:		
Within one year	798,271	-
Within a period of more than one year but not exceeding five years	1,529,669	2,319,927
	<u>2,327,940</u>	<u>2,319,927</u>
Less: Amount due within one year shown under current liabilities	(798,271)	-
	<u>1,529,669</u>	<u>2,319,927</u>

(12) Units in issue:		
	Number of units	HK\$'000
Balance as at 1 January 2019	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	1,502,622,001	3,248,419
Payment of manager's base fee and variable fee through issuance of new units during the year	<u>21,446,033</u>	<u>53,175</u>
Balance as at 31 December 2020	<u>1,524,068,034</u>	<u>3,301,594</u>

(13) Investment properties:		
	<i>31 Dec 2020</i>	<i>31 Dec 2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Fair value</b>		
At the beginning of the year	11,126,000	10,990,000
Additional expenditure	3,856	7,888
Change in fair value of investment properties	(982,856)	128,112
	<u>10,147,000</u>	<u>11,126,000</u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,524,068,034 units in issue as at 31 December 2020 (1,502,622,001 units in issue as at 31 December 2019).
- (15) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$808,777,000 (2019: net current assets of HK\$13,329,000) and the Group's total assets less current liabilities amounted to HK\$9,338,223,000 (2019: HK\$11,166,617,000). The Group has in place a revolving credit facility to meet its liabilities when they fall due.
- (16) The consolidated financial statements have been prepared in accordance with HKFRSs 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.*