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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

2021 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, supplemented and/or restated 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 unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2021 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2020 as follows:

Performance Highlights

<u>Distribution</u>	<u>Six months ended 30 Jun 2021 (unaudited)</u>	<u>Six months ended 30 Jun 2020 (unaudited)</u>	<u>Percentage change Increase/(Decrease)</u>
Income available for distribution	HK\$138.1 million	HK\$136.5 million	1.2%
Distribution per unit (“DPU”)	HK\$0.0901	HK\$0.0899	0.2%

<u>Operation data</u>	<u>Six months ended 30 Jun 2021 (unaudited)</u>	<u>Six months ended 30 Jun 2020 (unaudited)</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$224.4 million	HK\$228.7 million	(1.9%)
Net property income	HK\$180.4 million	HK\$181.1 million	(0.4%)
Occupancy rate (as at 30 June)	96.0%	96.8%	(0.8%) ²
Cost-to-revenue ratio	19.6%	20.8%	(1.2%) ²

<u>Key financial figures</u>	<u>As at 30 Jun 2021 (unaudited)</u>	<u>As at 31 Dec 2020 (audited)</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$4.80	HK\$4.95	(3.0%)
Property valuation	HK\$9,953 million	HK\$10,147 million	(1.9%)
Gearing ratio ¹	22.7%	22.3%	0.4% 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 2021, 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 2021, 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 2021, 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	2,993	89.5%
Prosperity Millennia Plaza	North Point	217,955	43	2,136	97.3%
9 Chong Yip Street	Kwun Tong	136,595	68	1,003	97.6%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,645	97.8%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,024	98.1%
Prosperity Center (portion)	Kwun Tong	149,253	105	824	97.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	328	100.0%
Total		1,275,153	498	9,953	96.0%

During the Reporting Period, global economic recovery has been picking up gradually as the COVID-19 pandemic situation got under control in most developed countries with the increasing vaccination rate. The recent surge of the more transmissible virus variant cases, however, resulted in intermittent city lockdown in some countries.

In US, GDP increased by 12.2% year-on-year (“YoY”) in 2Q 2021. Amidst the inflation risk, the Fed rate remains unchanged at 0.25% despite market hints were made that an interest rate hike might be seen in 2022 or 2023. In China, economic growth remains robust as the pandemic has been well contained since 2Q 2020. GDP of China recorded +7.9% YoY in 2Q 2021.

In Hong Kong, with social distancing measures in place and the roll-out of vaccination programme, the pandemic situation has improved. As most economic activities resumed normal, GDP recorded +7.5% YoY in 2Q 2021. The overall Grade A office vacancy still stood high as more companies underwent downsizing, business consolidation and layout re-configuration due to cost concerns and change of business operation mode. Despite the narrowing rental gap between core and non-core business districts, some MNCs committed to relocate to non-core business districts to capitalize on lower rent levels given more high specification office supply available in market.

Furthermore, under the flexible workspace trend, companies now demand higher flexibility in office layout when leasing new spaces. We offered custom solutions for prospective tenants with re-configuration needs. Besides, tenants have higher expectation on the standard of property management, the hygiene condition and the ventilation system, as well as the provision of wellness facilities.

Navigating in an uncertain economic environment, Prosperity REIT focuses on retaining tenants for achieving stable occupancy and income stream. Rental relief measures were offered to tenants on a case-by-case basis.

During the Reporting Period, while the occupancy rate was stable at 96.0%, the average effective unit rent of the portfolio dropped to HK\$23.98 per sq. ft. and a negative rental reversion was registered. Our proactive and flexible leasing strategies, premium quality of our properties, as well as our attentive property management services helped to mitigate the adverse impact brought by market adversity.

As at 30 June 2021, Prosperity REIT's gearing ratio remained at a healthy level of 22.7% (31 December 2020: 22.3%), providing us with a strong balance sheet to meet with economic volatility and 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 are being carried out at Prosperity Millennia Plaza.

At Prosperity Millennia Plaza, two out of a total of three chiller sets have been replaced by more energy-efficient models in previous years. The electricity usage has enjoyed a double digit reduction after the replacement. To complete the work, we will replace the remaining chiller set to further streamline the cost. Furthermore, the existing Building Management System (BMS) will also be replaced with an advanced model for overall energy efficiency management. An Indoor Air Quality (IAQ) monitoring system will be installed in the new BMS in order to enhance the indoor air quality for the tenants.

Outlook

Global economic recovery has been driven by the major developed countries with vaccination rates risen as well as the massive fiscal stimulus measures from US. The IMF World Economic Outlook released in July has maintained its projected 2021 global GDP growth unchanged at 6%. Global prospects are improving but performance diverged across countries, dependent on the effectiveness of vaccine rollout and public health strategies.

Hong Kong's GDP is forecasted to grow by 5.5% in 2021. Unemployment rate has been stabilized from 17-year high of 7.2% in February 2021 to 5.5% in June. Despite the signs of economic recovery, it is uneven in different sectors and the uncertainty lingered around the resurgence of virus variant cases and the time for re-opening the border to China. Other uncertain factors weighed on the recovery pace include China-US trade relations and US Fed's tapering plan. Hong Kong will continue to leverage on China's strong recovery momentum.

While the COVID-19 pandemic has prolonged effects on our business, we will continue to implement flexible asset management strategies under the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT. We will also capitalize on the opportunities brought by the office decentralization trend and the forthcoming full opening of Shatin-to-Central Link.

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	54,609	11,474	66,083	54,884
Prosperity Millennia Plaza	39,991	7,570	47,561	39,338
9 Chong Yip Street	17,705	2,261	19,966	16,209
Commercial				
Prosperity Place	33,625	3,455	37,080	29,636
Industrial/Office				
Trendy Centre	22,584	3,552	26,136	20,222
Prosperity Center (portion)	16,970	1,797	18,767	13,543
Industrial				
New Treasure Centre (portion)	7,578	1,218	8,796	6,595
Total	193,062	31,327	224,389	180,427

Revenue

During the Reporting Period, revenue decreased to HK\$224.4 million, being HK\$4.3 million or 1.9% lower than the last corresponding half year. The decrease was mainly due to the adverse market conditions and impact from COVID-19 since the 2Q 2020.

Net Property Income

For the Reporting Period, the net property income was HK\$180.4 million, being HK\$0.7 million or 0.4% lower than the last corresponding half year mainly as a result of the decrease in revenue. The cost-to-revenue ratio was 19.6%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$138.1 million, representing a DPU of HK\$0.0901. This represents an annualized distribution yield of 6.1%³. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$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 2021, 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 2021.

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 2021, the interest costs for approximately 70% (31 December 2020: 70%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps.

³Based on Prosperity REIT's closing unit price of HK\$2.97 as at 30 June 2021.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 22.7% as at 30 June 2021 (31 December 2020: 22.3%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 28.8 % as at 30 June 2021 (31 December 2020: 28.2%).

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.

Subsequent to the end of the Reporting Period, in order to refinance the HK\$800 Million Facility, Prosperity REIT's wholly-owned subsidiary entered into an unsecured sustainability-linked term loan facility agreement with DBS Bank Ltd., Hong Kong Branch on 19 July 2021 in an aggregate principal amount of HK\$800 million (the "**New Facility**"). The New Facility, which bears interest at a margin of 1.05% per annum over HIBOR, will mature and become payable five years from the date of drawdown. The New Facility's interest margin is linked to the sustainability performance of Prosperity REIT, which may be reduced depending on the extent of pre-determined key performance indicators being met.

Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation loss of HK\$196.0 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,147,000	11,126,000
Additional expenditure	1,965	3,856
Change in fair value of investment properties	(195,965)	(982,856)
Fair value at the end of the period/year	<u>9,953,000</u>	<u>10,147,000</u>

Charges on Assets

As at 30 June 2021, 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

Pursuant to the general mandate to buy back units granted by unitholders, the REIT Manager bought back a total of 5,386,000 units on behalf of Prosperity REIT on the Stock Exchange during the Reporting Period for an aggregate consideration of approximately HK\$15.8 million (excluding expenses). Details of units bought back are summarised as follows:

Month of bought back	Number of Units bought back	Purchase price per unit		Aggregate Consideration (excluding expenses) <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
<u>2021</u>				
May	684,000	2.75	2.73	1,875
June	<u>4,702,000</u>	3.00	2.86	<u>13,906</u>
	<u>5,386,000</u>			<u>15,781</u>

3,692,000 units bought back were cancelled prior to the Reporting Period end and 1,694,000 units bought back were cancelled subsequent to the reporting period end on 14 July 2021.

Save as disclosed above and other than the disposal of 16,116,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no other repurchase, sale or redemption of units by Prosperity REIT or its subsidiaries during the Reporting Period.

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 Monday, 30 August 2021 to Tuesday, 31 August 2021, 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 Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 27 August 2021. The payment date of interim distribution will be on Wednesday, 8 September 2021.

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 (the "HKICPA").

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 2021.

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 Thursday, 30 September 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<i>Six months ended 30 June</i>		
	<i>2021</i>	<i>2020</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	3	224,389	228,731
Property management fees		(5,356)	(5,575)
Property operating expenses		(38,606)	(42,066)
Total property operating expenses		<u>(43,962)</u>	<u>(47,641)</u>
Net property income		180,427	181,090
Interest income		510	3,470
Manager's fee		(25,347)	(27,070)
Trust and other expenses	5	(4,251)	(4,288)
Change in fair value of investment properties		(195,965)	(557,439)
Finance costs	6	<u>(8,109)</u>	<u>(112,858)</u>
Loss before taxation and transactions with unitholders		(52,735)	(517,095)
Taxation	7	<u>(20,942)</u>	<u>(20,071)</u>
Loss for the period, before transactions with unitholders		(73,677)	(537,166)
Distribution to unitholders		<u>(138,110)</u>	<u>(136,513)</u>
Loss for the period, after transactions with unitholders		<u>(211,787)</u>	<u>(673,679)</u>
Total comprehensive expense for the period, after transactions with unitholders		<u>(211,787)</u>	<u>(673,679)</u>
Income available for distribution to unitholders		<u>138,110</u>	<u>136,513</u>
Basic loss per unit (HK\$)	8	<u>(0.05)</u>	<u>(0.36)</u>

DISTRIBUTION STATEMENT

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period, before transactions with unitholders	(73,677)	(537,166)
Adjustments:		
Manager's fee	24,807	26,487
Change in fair value of investment properties	195,965	557,439
Change in fair value of derivative financial instruments	(18,480)	80,228
Finance costs	3,964	3,985
Deferred tax	5,531	5,540
Income available for distribution (note (i))	138,110	136,513
Distributions to unitholders:		
For the six months ended 30 June	138,110	136,513
Distribution per unit (HK\$) (note (ii))	0.0901	0.0899

Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the stated policy of the REIT Manager to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries (the "Group") for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the relevant financial period.

These adjustments for the half year comprise:

- (a) manager's fee paid and payable in units of HK\$24,807,000 (2020: HK\$26,487,000) out of the total manager's fee of HK\$25,347,000 (2020: HK\$27,070,000) (the difference of HK\$540,000 (2020: HK\$583,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$195,965,000 (2020: HK\$557,439,000) and increase in fair value of derivative financial instruments of HK\$18,480,000 (2020: decrease in fair value of HK\$80,228,000);

(c) adjustment in respect of the accounting finance costs of HK\$8,109,000 (2020: HK\$112,858,000), plus increase in fair value of derivative financial instruments of HK\$18,480,000 (2020: less decrease in fair value of HK\$80,228,000) and less the cash finance costs of HK\$22,625,000 (2020: HK\$28,645,000); and

(d) deferred tax provision of HK\$5,531,000 (2020: HK\$5,540,000).

(ii) The DPU of HK\$0.0901 (2020: HK\$0.0899) is calculated based on Prosperity REIT's income available for distribution of HK\$138,110,000 (2020: HK\$136,513,000) over 1,532,773,868 units (2020: 1,518,303,244 units), representing units in issue as at 30 June 2021 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, and less 1,694,000 units (2020: nil) bought back and cancelled prior to the date of declaration of the distribution.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 Jun 2021 HK\$'000 (unaudited)	31 Dec 2020 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current asset			
Investment properties	13	9,953,000	10,147,000
Current assets			
Trade and other receivables	9	12,388	13,029
Bank balances and cash		348,622	351,788
Total current assets		361,010	364,817
Total assets		10,314,010	10,511,817
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		25,724	46,001
Borrowings	11	1,532,345	1,529,669
Deferred tax liabilities		225,578	220,047
Total non-current liabilities, excluding net assets attributable to unitholders		1,783,647	1,795,717
Current liabilities			
Derivative financial instruments		22,828	21,031
Trade and other payables	10	188,948	187,685
Amounts due to related companies		9,977	6,980
Borrowings	11	799,559	798,271
Provision for taxation		18,395	10,347
Manager's fee payable		12,596	12,871
Distribution payable		138,110	136,409
Total current liabilities		1,190,413	1,173,594
Total liabilities, excluding net assets attributable to unitholders		2,974,060	2,969,311
Net assets attributable to unitholders		7,339,950	7,542,506
Units in issue ('000)	12	1,530,360	1,524,068
Net asset value per unit (HK\$) attributable to unitholders	14	4.80	4.95

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 additional in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standard (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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

Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2021.

(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, at the date of issuing this condensed consolidated financial statements, taking into account 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>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	178,111	184,449
Car park income	14,951	13,357
	<hr/>	<hr/>
	193,062	197,806
Rental related income	31,327	30,925
	<hr/>	<hr/>
	224,389	228,731
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(4) Segment information:

During the Reporting Period, Prosperity REIT invested in seven (2020: 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.

Six months ended 30 June 2021 (unaudited)

	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	54,609	39,991	17,705	33,625	22,584	16,970	7,578	193,062
Rental related income	11,474	7,570	2,261	3,455	3,552	1,797	1,218	31,327
Segment revenue in Hong Kong	66,083	47,561	19,966	37,080	26,136	18,767	8,796	224,389
Segment profit	54,884	39,338	16,209	29,636	20,222	13,543	6,595	180,427
Interest income								510
Manager's fee								(25,347)
Trust and other expenses								(4,251)
Change in fair value of investment properties								(195,965)
Finance costs								(8,109)
Loss before taxation and transactions with unitholders								(52,735)

Six months ended 30 June 2020 (unaudited)

	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	57,286	41,011	17,629	33,828	22,465	17,978	7,609	197,806
Rental related income	12,013	7,881	2,382	1,820	3,933	1,771	1,125	30,925
Segment revenue in Hong Kong	69,299	48,892	20,011	35,648	26,398	19,749	8,734	228,731
Segment profit	57,008	40,782	15,589	26,311	19,946	14,956	6,498	181,090
Interest income								3,470
Manager's fee								(27,070)
Trust and other expenses								(4,288)
Change in fair value of investment properties								(557,439)
Finance costs								(112,858)
Loss before taxation and transactions with unitholders								(517,095)

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	96	119
Bank charges	710	714
Legal and professional fees	256	365
Public relations and related expenses	74	83
Registrar fee	300	300
Trust administrative expenses	1,310	1,066
Trustee's fee	1,505	1,641
	<hr/>	<hr/>
	4,251	4,288
	<hr/>	<hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on bank borrowings	15,849	35,206
Interest rate swaps expenses (income) realised	10,740	(2,576)
	<hr/>	<hr/>
	26,589	32,630
Change in fair value of derivative financial instruments	(18,480)	80,228
	<hr/>	<hr/>
	8,109	112,858
	<hr/>	<hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	15,411	14,531
Deferred tax	5,531	5,540
	<hr/>	<hr/>
	20,942	20,071
	<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.

(8) Basic loss per unit:

The basic loss per unit is calculated by dividing the loss for the period, before transactions with unitholders of HK\$73,677,000 (2020: HK\$537,166,000) by the weighted average of 1,533,427,608 (2020: 1,512,713,129) 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.

No diluted earnings per unit has been presented as there were no potential units in issue.

(9) Trade and other receivables:

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	3,897	5,774
Less: allowance for credit losses	(419)	(1,414)
	3,478	4,360
Deposits, prepayments and other receivables	8,910	8,669
	12,388	13,029

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

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	101	153
2 – 3 months	543	4,207
Over 3 months	2,834	-
	3,478	4,360

(10) Trade and other payables:

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	1,727	1,960
Tenants' deposits		
- Outside parties	137,310	137,077
- Related parties	727	3,596
Rental received in advance		
- Outside parties	6,192	5,869
Other payables	42,992	39,183
	<hr/> <u>188,948</u>	<hr/> <u>187,685</u>

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

	<i>30 Jun 2021</i> <i>HK\$ '000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$ '000</i> <i>(audited)</i>
Current – 1 month	677	715
1 – 3 months	508	607
Over 3 months	542	638
	<hr/> <u>1,727</u>	<hr/> <u>1,960</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 end of the Reporting Period based on the lease terms amounted to HK\$74,380,000 as at 30 June 2021 (31 December 2020: HK\$82,205,000).

(11) Borrowings:

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(8,096)	(12,060)
	<hr/> 2,331,904	<hr/> 2,327,940
Carrying amount repayable:		
Within one year	799,559	798,271
Within a period of more than one year but not exceeding five years	1,532,345	1,529,669
	<hr/> 2,331,904	<hr/> 2,327,940
Less: Amount due within one year shown under current liabilities	(799,559)	(798,271)
	<hr/> 1,532,345	<hr/> 1,529,669
	<hr/> <hr/>	<hr/> <hr/>

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2020	1,502,622,001	3,248,419
Payment of Manager's base fee and variable fee through issuance of new units during the year	21,446,033	53,175
	<hr/> 1,524,068,034	<hr/> 3,301,594
Balance as at 31 December 2020		
Payment of Manager's base fee and variable fee through issuance of new units during the period	9,983,742	25,077
Units bought back and cancelled	(3,692,000)	(10,765)
	<hr/> 1,530,359,776	<hr/> 3,315,906
Balance as at 30 June 2021		
	<hr/> <hr/>	<hr/> <hr/>

(13) Investment properties:

	<i>30 Jun 2021</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2020</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	10,147,000	11,126,000
Additional expenditure	1,965	3,856
Change in fair value of investment properties	(195,965)	(982,856)
Fair value at the end of the period/year	<u>9,953,000</u>	<u>10,147,000</u>

(14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,530,359,776 units in issue as at 30 June 2021 (31 December 2020: 1,524,068,034 units).

(15) At the end of the Reporting Period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$829,403,000 (31 December 2020: HK\$808,777,000) and the Group's total assets less current liabilities amounted to HK\$9,123,597,000 (31 December 2020: HK\$9,338,223,000).

(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, 12 August 2021

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.