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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 2021**

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. 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 2021 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2020 as follows:

**Performance Highlights**

<b><u>Distribution</u></b>	<b><u>Year ended 31 Dec 2021</u></b>	<b><u>Year ended 31 Dec 2020</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Income available for distribution	HK\$267.6 million	HK\$272.9 million	(1.9%)
Distribution per unit (“DPU”)	HK\$0.1763	HK\$0.1791	(1.6%)

<b><u>Operation data</u></b>	<b><u>Year ended 31 Dec 2021</u></b>	<b><u>Year ended 31 Dec 2020</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Revenue	HK\$445.0 million	HK\$452.9 million	(1.7%)
Net property income	HK\$352.1 million	HK\$358.0 million	(1.6%)
Occupancy rate (as at 31 Dec)	97.7%	96.1%	1.6% <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 2021</u></b>	<b><u>As at 31 Dec 2020</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Net asset value per unit	HK\$4.83	HK\$4.95	(2.4%)
Property valuation	HK\$9,967 million	HK\$10,147 million	(1.8%)
Gearing ratio <sup>1</sup>	23.0%	22.3%	0.7% <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 2021. 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**

Though business environment remained challenging under headwinds arising from COVID-19 pandemic and geopolitical conflicts, Prosperity REIT managed to deliver yet another stable result in distributable income and distribution per unit (“DPU”). Property valuation largely followed the market and adjusted downward slightly by 1.8% to HK\$9,967 million.

In light of these results, our Unitholders will receive a DPU of HK\$0.0862 per unit for the second half of the year, representing a total DPU of HK\$0.1763 for the year ended 31 December 2021.

## **Market Review**

During 2021, global economies rebounded from pandemic lows in terms of trade and employment against the backdrop of improving business sentiments and increasing vaccination rates. However, worrying economic signs resurfaced in the second half of the year amidst pronounced inflationary pressures, ongoing supply chain woes and surging cases of COVID-19 variants.

In US, buoyant economic indicators of rising GDP and falling unemployment rate met with growing inflation rate. Consequently, Federal Reserve embraced a more hawkish turn in the recent December meeting by announcing the speeding up of bond purchase tapering and hinting of multiple interest rate hikes in 2022.

In Mainland China, annual GDP growth reached 8.1% with vigorous economic recovery stemming from strong net exports, reopening of overseas economies and effective pandemic controls. In second half of the year, financial distress involving some Chinese property developers led to turbulence in the stock market and triggered asset disposals for deleveraging.

Despite lingering concerns posed by China-US geopolitical tensions and intermittent pandemic resurgences, Hong Kong economy enjoyed a modest revival in 2021 – annual GDP growth of 6.4% marked a reversal from declines in the past two years along with fall in unemployment rates to 3.9% in the last quarter of the year, attributable to the stringent pandemic controls and implementation of various economic stimulus measures.

### **Operations Review**

While overall leasing market remained subdued at times, encouraging signs emerged in the latter part of the year with rents bottoming-out and occupancy rates picking up. Notwithstanding the work from home trend coupled with future office supply overhang, the key themes of cost-effective office decentralization, downsizing and consolidation remained at the forefront. Corporations would thus opt for relocation to value for money office spaces.

Amid tough market conditions, with a focus on retaining tenants, our portfolio occupancy remained robust and stood at a stable level of 97.7% as at 31 December 2021.

### **Outlook**

Whilst global economic recovery is expected to continue in 2022 with forecasted global GDP growth moderating to 4.1% according to World Bank, downside risks such as withdrawal of accommodative fiscal and monetary supports, COVID-19 variant outbreaks, geopolitical tensions and inflationary pressures cast a shadow over the global outlook. Nonetheless, Hong Kong GDP is forecasted to grow in the range of 2.0% to 3.5% in 2022. Opportunities for the Hong Kong economy include the easing border restriction with Mainland China and the upbeat IPO pipeline.

Although COVID-19 pandemic coupled with the geopolitical and macroeconomic concerns have prolonged effects on our business, Prosperity REIT has continuously demonstrated its resilience to weather difficult times. Looking forward, we will continue to deploy flexible asset management strategies under the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT. Furthermore, we will continue to capitalize on opportunities brought by office decentralization and cost-optimization trends, as well as the full opening of Tuen Ma Line and the upcoming opening of Hung Hom to Admiralty cross-harbour section.

### **Sustainability**

To incorporate sustainability into our business practices and fulfill our responsibilities as a responsible corporate citizen, we have continued to progress towards achieving our “Vision 2030” sustainability strategy. Apart from revamping our properties with multiple green asset enhancement initiatives (“AET”), 100% of our property portfolio has also attained green building certifications. Additionally, we have taken our first step towards sustainable finance by securing our maiden sustainability-linked term loan.

### **Achievements and Acknowledgements**

I would like to express my heartfelt thanks to all our staff, tenants, service providers and business partners who have all played significant roles in helping us build a resilient platform to navigate through uncharted waters.

In particular, I am grateful to my fellow Board members and the management team for their unswerving devotion and tireless efforts.

Last but not least, I would like to finish by acknowledging and thanking all our Unitholders. Your unwavering support for and confidence in Prosperity REIT are indispensable for our sustainable growth.

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

Hong Kong, 10 March 2022

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 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 31 December 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 31 December 2021, 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	2,993	98.2%
Prosperity Millennia Plaza	North Point	217,955	43	2,136	95.5%
9 Chong Yip Street	Kwun Tong	136,595	68	1,003	98.6%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,650	98.1%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,026	98.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	826	97.9%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	333	97.2%
<b>Total</b>		<b>1,275,153</b>	<b>498</b>	<b>9,967</b>	<b>97.7%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 97.7% as at 31 December 2021, 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 with a sustainable green working environment to our tenants 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 have been carried out at Prosperity Millennia Plaza and Prosperity Place.

Asset enhancement initiatives will continue in 2022 across the portfolio. The notable project will be the facelifting of the ground floor main lobby of The Metropolis Tower, incorporating green and well-being elements and smart building technology. The uplift building image will enhance our marketing edge on top of the capitalization of the full opening of Tuen Ma Line and the upcoming opening of Hung Hom to Admiralty cross-harbour section in 2022.

### **Prosperity Millennia Plaza**

We have replaced two out of total three chiller sets by a more energy-efficient model in previous years. Considering higher running and maintenance costs of the remaining aged chiller set, we have further replaced the remaining chiller set in order to upkeep a reliable air conditioning service for the property. Furthermore, the Building Management System (BMS) has also been replaced with an advanced model for better energy efficiency management. The Indoor Air Quality monitoring system has been included in order to enhance the indoor air quality for the tenants.

## **Prosperity Place**

To deepen our Environmental, Social and Governance (ESG) footprint towards enhanced environmental performance and efficiencies, we have installed solar panels at the existing roof top in order to reduce energy use and greenhouse gases. The system is expected to generate up to approximately 23,000units (kWh) of electricity each year.

## **The Metropolis Tower**

The ground floor main lobby area is under renovation 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 targeted to be completed in May 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	105,976	22,984	128,960	103,301
Prosperity Millennia Plaza	77,637	15,131	92,768	75,118
9 Chong Yip Street	35,311	4,535	39,846	31,509
<b>Commercial</b>				
Prosperity Place	67,539	7,333	74,872	59,974
<b>Industrial/Office</b>				
Trendy Centre	45,742	7,186	52,928	40,913
Prosperity Center (portion)	34,708	3,678	38,386	28,574
<b>Industrial</b>				
New Treasure Centre (portion)	14,754	2,467	17,221	12,697
<b>Total</b>	<b>381,667</b>	<b>63,314</b>	<b>444,981</b>	<b>352,086</b>

### **Revenue**

During the Reporting Year, revenue decreased to HK\$445.0 million, being HK\$7.9 million or 1.7% lower than that of 2020. The decrease was mainly due to negative rental reversion rates recorded across the portfolio as well as the lower average occupancy rate in the Metropolis Tower. Part of the negative impact was offset by the increase in carpark income from HK\$27.4 million to HK\$31.0 million from rising demand for hourly parking.

### **Net Property Income**

For the Reporting Year, net property income was HK\$352.1 million, being HK\$5.9 million or 1.6% lower than that of 2020 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\$267.6 million, representing a total DPU of HK\$0.1763. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit or loss 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 2021 to 31 December 2021 is HK\$129.5 million, equivalent to a DPU of HK\$0.0862. The interim DPU from 1 January 2021 to 30 June 2021 was HK\$0.0901. The total DPU for the Reporting Year is HK\$0.1763, which represents a distribution yield of 5.7%<sup>3</sup>. The DPU decreased by 1.6% YoY.

The distribution for the half year from 1 July 2021 to 31 December 2021 will be paid on 11 April 2022 (Monday).

### Liquidity and Financing

As at 31 December 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 Hong Kong Interbank Offered Rate (“**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

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<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$3.08 as at 31 December 2021.

- (ii) A HK\$800 million unsecured sustainability-link term loan which bears interest at a margin of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2021 (the “**HK\$800 Million Facility**”). The 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.

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 2021.

The HK\$800 Million Facility was fully drawn on 31 August 2021.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap to mitigate the impact of interest rate fluctuations. As at 31 December 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.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT’s total assets was 23.0% as at 31 December 2021 (31 December 2020: 22.3%), whereas the total liabilities of Prosperity REIT as a percentage of Prosperity REIT’s total assets was 28.7% as at 31 December 2021 (31 December 2020: 28.2%).

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\$186.5 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:

	31 December 2021 <i>HK\$'000</i>	31 December 2020 <i>HK\$'000</i>
Fair value at the beginning of the year	10,147,000	11,126,000
Additional expenditure	6,518	3,856
Change in fair value of investment properties	(186,518)	(982,856)
Fair value at the end of the year	9,967,000	10,147,000

### Charges on Assets

As at 31 December 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 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**

Pursuant to the general mandate to buy back units granted by unitholders, the REIT Manager bought back a total of 39,143,000 units on behalf of Prosperity REIT on The Stock Exchange of Hong Kong Limited during the Reporting Year for an aggregate consideration of approximately HK\$118.7 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) HK\$'000
		Highest HK\$	Lowest HK\$	
<u>2021</u>				
May	684,000	2.75	2.73	1,875
June	4,702,000	3.00	2.86	13,906
July	-	-	-	-
August	3,066,000	3.09	2.96	9,287
September	14,601,000	3.10	2.89	44,556
October	3,267,000	3.10	2.97	9,995
November	7,355,000	3.10	3.00	22,390
December	5,468,000	3.10	3.02	16,661
	<u>39,143,000</u>			<u>118,670</u>

38,504,000 units bought back were cancelled prior to the Reporting Year end and the remaining 639,000 units bought back were cancelled subsequent to the Reporting Year end on 11 February 2022.

Save as disclosed above and other than the disposal of 30,859,000 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 Year.

## **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 29 March 2022 (Tuesday) to 30 March 2022 (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 Rooms 1712–16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 28 March 2022 (Monday). The payment date of the final distribution will be on 11 April 2022 (Monday).

### **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 2021.

### **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 2022 (Saturday).

### **ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on 26 May 2022 (Thursday). 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 2021

	<i>Notes</i>	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Revenue	3	444,981	452,894
Property management fees		(10,542)	(10,977)
Property operating expenses		(82,353)	(83,879)
Total property operating expenses		<u>(92,895)</u>	<u>(94,856)</u>
<b>Net property income</b>		352,086	358,038
Interest income		580	4,572
Manager's fee		(50,580)	(53,267)
Trust and other expenses	5	(7,817)	(8,149)
Change in fair value of investment properties		(186,518)	(982,856)
Finance costs	6	<u>(9,462)</u>	<u>(152,981)</u>
<b>Profit/(Loss) before taxation and transactions with unitholders</b>		98,289	(834,643)
Taxation	7	<u>(41,269)</u>	<u>(39,858)</u>
<b>Profit/(Loss) for the year, before transactions with unitholders</b>		57,020	(874,501)
Distribution to unitholders		<u>(267,619)</u>	<u>(272,922)</u>
<b>Loss for the year, after transactions with unitholders</b>		(210,599)	(1,147,423)
<b>Total comprehensive expense for the year, after transactions with unitholders</b>		<u><u>(210,599)</u></u>	<u><u>(1,147,423)</u></u>
<b>Income available for distribution to unitholders</b>		<u><u>267,619</u></u>	<u><u>272,922</u></u>
<b>Basic earnings/(loss) per unit (HK\$)</b>	8	<u><u>0.04</u></u>	<u><u>(0.58)</u></u>

## Distribution Statement

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
<b>Profit/(Loss) for the year, before transactions with unitholders</b>	<b>57,020</b>	<b>(874,501)</b>
Adjustments:		
Manager's fee	49,504	52,123
Change in fair value of investment properties	186,518	982,856
Change in fair value of derivative financial instruments	(44,463)	94,320
Finance costs	7,979	8,013
Deferred tax	11,061	10,111
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>267,619</b>	<b>272,922</b>
<b>Distributions to unitholders:</b>		
HK\$0.0901 (2020: HK\$0.0899) per unit for the six months ended 30 June (note (ii))	138,110	136,513
HK\$0.0862 (2020: HK\$0.0892) per unit for the six months ended 31 December (note (iii))	129,509	136,409
	<hr/>	<hr/>
	<b>267,619</b>	<b>272,922</b>
	<hr/>	<hr/>
<b>Total distribution per unit (HK\$)</b>	<b>0.1763</b>	<b>0.1791</b>
	<hr/>	<hr/>

Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the REIT Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit or loss 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 and payable in units of HK\$49,504,000 (2020: HK\$52,123,000) out of the total manager's fee of HK\$50,580,000 (2020: HK\$53,267,000) (the differences of HK\$1,076,000 (2020: HK\$1,144,000) are paid in cash);



- (b) change in fair value of investment properties of HK\$186,518,000 (2020: HK\$982,856,000) and increase in fair value of derivative financial instruments of HK\$44,463,000 (2020: decrease in fair value of HK\$94,320,000);
- (c) adjustment in respect of the accounting finance costs of HK\$9,462,000 (2020: HK\$152,981,000), adding back increase in fair value of derivative financial instruments of HK\$44,463,000 (2020: less decrease in fair value of HK\$94,320,000) and less the cash finance costs of HK\$45,946,000 (2020: HK\$50,648,000); and
- (d) deferred tax provision of HK\$11,061,000 (2020: HK\$10,111,000).
- (ii) The distribution per unit of HK\$0.0901 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$0.0899) is calculated based on Prosperity REIT's income available for distribution of HK\$138,110,000 (six months ended 30 June 2020: HK\$136,513,000) over 1,532,773,868 units (30 June 2020: 1,518,303,244 units), representing units in issue as at 30 June 2021 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 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. The distribution was paid to unitholders on 8 September 2021.
- (iii) The distribution per unit of HK\$0.0862 for the six months ended 31 December 2021 (six months ended 31 December 2020: HK\$0.0892) is calculated based on Prosperity REIT's income available for distribution of HK\$129,509,000 (six months ended 31 December 2020: HK\$136,409,000) over 1,503,056,502 units (31 December 2020: 1,529,288,611 units), representing units in issue as at 31 December 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 last quarter of the relevant distribution year, and less 4,678,000 units (2020: nil) bought back and cancelled prior to the date of declaration of the distribution.

## Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	13	9,967,000	10,147,000
<b>Current assets</b>			
Trade and other receivables	9	12,663	13,029
Bank balances and cash		205,960	351,788
Total current assets		218,623	364,817
<b>Total assets</b>		<b>10,185,623</b>	<b>10,511,817</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		4,823	46,001
Borrowings	11	788,155	1,529,669
Deferred tax liabilities		231,108	220,047
Total non-current liabilities, excluding net assets attributable to unitholders		1,024,086	1,795,717
<b>Current liabilities</b>			
Derivative financial instruments		17,746	21,031
Trade and other payables	10	190,936	187,685
Amounts due to related companies		8,219	6,980
Borrowings	11	1,535,064	798,271
Provision for taxation		4,907	10,347
Manager's fee payable		12,553	12,871
Distribution payable		129,509	136,409
Total current liabilities		1,898,934	1,173,594
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,923,020</b>	<b>2,969,311</b>
<b>Net assets attributable to unitholders</b>		<b>7,262,603</b>	<b>7,542,506</b>
<b>Units in issue ('000)</b>	12	1,503,747	1,524,068
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	14	4.83	4.95

## 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**

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the 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

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

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

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial liabilities as a result of interest rate benchmark reform and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

As at 1 January 2021, the Group has several HKD HIBOR borrowings and derivative financial instruments which may be subject to interest rate benchmark reform.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for borrowings measured at amortised cost.

### **New and amendments to HKFRSs in issue 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 and the related Amendments <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>3</sup>

Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</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 April 2021.

<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 1 January 2023.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

### **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

The REIT Manager anticipates that the application of all above new and amendments to HKFRSs will have no material impact 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 *Leases*, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

For financial instruments and investment properties which are 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>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rental from investment properties		
Rental income	350,659	363,860
Car park income	31,008	27,358
	<u>381,667</u>	<u>391,218</u>
Rental related income	63,314	61,676
	<u>444,981</u>	<u>452,894</u>

(4) Segment information:

During the Reporting Year, 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.



*For the year ended 31 December 2021*

	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	105,976	77,637	35,311	67,539	45,742	34,708	14,754	381,667
Rental related income	22,984	15,131	4,535	7,333	7,186	3,678	2,467	63,314
Segment revenue in Hong Kong	128,960	92,768	39,846	74,872	52,928	38,386	17,221	444,981
Segment profit	103,301	75,118	31,509	59,974	40,913	28,574	12,697	352,086
Interest income								580
Manager's fee								(50,580)
Trust and other expenses								(7,817)
Change in fair value of investment properties								(186,518)
Finance costs								(9,462)
Profit before taxation and transactions with unitholders								98,289

*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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)

(5) Trust and other expenses:

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Audit fee	192	206
Bank charges	1,358	1,397
Legal and professional fees	512	571
Public relations-related expenses	156	253
Registrar fee	600	600
Trust administrative expenses	1,989	1,883
Trustee's fee	3,010	3,239
	<u>7,817</u>	<u>8,149</u>

(6) Finance costs:

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Interest expense on bank borrowings	31,419	53,873
Interest rate swaps expenses realised	22,506	4,788
	<u>53,925</u>	<u>58,661</u>
Change in fair value of derivative financial instruments	(44,463)	94,320
	<u>9,462</u>	<u>152,981</u>

(7) Taxation:

	<i>2021</i> <i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Current tax	30,562	30,725
Over-provision in prior year	(354)	(978)
Deferred tax	11,061	10,111
	<u>41,269</u>	<u>39,858</u>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2020: 16.5%) for the year ended 31 December 2021.

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/(loss) per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$57,020,000 (2020: loss of HK\$874,501,000) by the weighted average of 1,528,106,100 (2020: 1,518,353,207) units in issue during the year, taking into account units bought back and cancelled and 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>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	5,254	5,774
Less: allowance for credit losses	(1,278)	(1,414)
	<u>3,976</u>	<u>4,360</u>
Deposit and prepayments and other receivables	8,687	8,669
	<u>12,663</u>	<u>13,029</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>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	54	153
2 – 3 months	3,922	4,207
	<u>3,976</u>	<u>4,360</u>

(10) Trade and other payables:

	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,893	1,960
Tenants' deposits		
- Outside parties	139,284	137,077
- Related parties	727	3,596
Rental received in advance		
- Outside parties	4,913	5,869
Other payables	43,119	39,183
	<u>190,936</u>	<u>187,685</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>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	895	715
2 – 3 months	1,306	607
Over 3 months	692	638
	<u>2,893</u>	<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 Reporting Year based on the lease terms amounted to HK\$81,996,000 (2020: HK\$82,205,000).

(11) Borrowings:

	<i>2021</i>	<i>2020</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(16,781)	(12,060)
	<u>2,323,219</u>	<u>2,327,940</u>
Carrying amount repayable:		
Within one year	1,535,064	798,271
Within a period of more than one year but not exceeding five years	788,155	1,529,669
	<u>2,323,219</u>	<u>2,327,940</u>
Less: Amount due within one year shown under current liabilities	(1,535,064)	(798,271)
	<u>788,155</u>	<u>1,529,669</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
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	<u>21,446,033</u>	<u>53,175</u>
Balance as at 31 December 2020	1,524,068,034	3,301,594
Payment of manager's base fee and variable fee through issuance of new units during the year	18,183,296	49,819
Units bought back and cancelled	<u>(38,504,000)</u>	<u>(117,150)</u>
Balance as at 31 December 2021	<u>1,503,747,330</u>	<u>3,234,263</u>

(13) Investment properties:

	<i>31 Dec 2021</i> <i>HK\$'000</i>	<i>31 Dec 2020</i> <i>HK\$'000</i>
<b>Fair value</b>		
At the beginning of the year	10,147,000	11,126,000
Additional expenditure	6,518	3,856
Change in fair value of investment properties	<u>(186,518)</u>	<u>(982,856)</u>
At the end of the year	<u><b>9,967,000</b></u>	<u><b>10,147,000</b></u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,503,747,330 units in issue as at 31 December 2021 (1,524,068,034 units in issue as at 31 December 2020).
- (15) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,680,311,000 (2020: net current liabilities of HK\$808,777,000) and the Group's total assets less current liabilities amounted to HK\$8,286,689,000 (2020: HK\$9,338,223,000). 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.*