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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 2022

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 2022 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2021 as follows:

Performance Highlights

<u>Distribution</u>	<u>Year ended 31 Dec 2022</u>	<u>Year ended 31 Dec 2021</u>	<u>Percentage change Increase/(Decrease)</u>
Income available for distribution	HK\$245.0 million	HK\$267.6 million	(8.4%)
Distribution per unit (“DPU”)	HK\$0.1625	HK\$0.1763	(7.8%)

<u>Operation data</u>	<u>Year ended 31 Dec 2022</u>	<u>Year ended 31 Dec 2021</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$434.0 million	HK\$445.0 million	(2.5%)
Net property income	HK\$337.9 million	HK\$352.1 million	(4.0%)
Occupancy rate (as at 31 Dec)	96.3%	97.7%	(1.4%) ²
Tenant retention rate	76.1%	72.6%	3.5% ²
Cost-to-revenue ratio	22.1%	20.9%	1.2% ²

<u>Key financial figures</u>	<u>As at 31 Dec 2022</u>	<u>As at 31 Dec 2021</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$4.71	HK\$4.83	(2.5%)
Property valuation	HK\$9,801 million	HK\$9,967 million	(1.7%)
Gearing ratio ¹	23.4%	23.0%	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.

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 2022. 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

Given the backdrop of a challenging business environment dragged by rising interest rates and stringent anti-epidemic measures, Prosperity REIT registered a decline in distributable income and distribution per unit. Property valuation broadly followed the market in adjusting downward by 1.7% to HK\$9,801 million.

Our Unitholders will receive a DPU of HK\$0.0750 for the second half of the year, representing a total DPU of HK\$0.1625 for the year ended 31 December 2022.

Market Review

During 2022, global growth momentum was constrained by headwinds including surging interest rates, energy prices, inflation, geopolitical tensions, trade conflicts, COVID-19 variant outbreaks and supply chain disruptions.

In the US, economic activity slowed as the Fed hiked rates sharply by 425bps in 2022 to a range of 4.25% – 4.50% and conducted quantitative tightening by reducing its balance sheet to quell inflationary pressures.

In Mainland China, supportive macroeconomic policies were in place to stimulate economic growth as COVID-related city lockdowns weighed on consumer and business sentiments. The recent lifting of lockdown and travel curbs is expected to rejuvenate demand for consumption and services.

In Hong Kong, GDP contracted by 3.5% annually as high interest rates and strict anti-epidemic controls inhibited domestic and foreign demand. Nevertheless, towards the end of the year, a gradual return to normalcy under relaxed social distancing measures, as well as loosened travel restrictions, bolsters local social and economic activities.

Operations Review

Despite the tepid recovery of leasing momentum post-Fifth Wave of COVID-19, demand was tempered by economic uncertainty and future office supply overhang. Overall office leasing market was characterized by cost-conscious relocation, downsizing and consolidation. Recent signs emerged with rents and occupancy rates bottoming out as local anti-epidemic rules were eased.

Amid difficult market conditions, with a focus on retaining tenants, our portfolio occupancy rate stayed healthy and stood at a stable level of 96.3% as at 31 December 2022.

Sustainability

Echoing the increasing global emphasis on sustainability, we have ramped up efforts towards realizing our “Vision 2030” ambitions. As a testament to the progress of our sustainability journey, Prosperity REIT has been conferred a 5-Star rating and Green Star accreditation in 2022 Global Real Estate Sustainability Benchmark (“GRESB”). Apart from securing our maiden sustainability-linked interest rate swap, we have reached another milestone with 100% of Prosperity REIT’s financing now being sustainability-linked after the signing of a HK\$1,970 million sustainability-linked loan in 2022. Additionally, we have launched our tenant app “PREIT 808” to assimilate sustainability into our everyday business operations, as well as engage and incentivize tenants to join us in aiming for higher green building targets. While 100% of our property portfolio has already attained green building certifications, we take a leap forward with The Metropolis Tower achieving “Platinum” award under BEAM Plus Comprehensive Scheme.

Outlook

According to the International Monetary Fund, global economic growth is projected to soften to 2.9% in 2023 amidst elevated interest rates, inflation and geopolitical tensions. On the other hand, Hong Kong’s GDP is forecasted to rebound with growth of 3.5% to 5.5% in 2023 as the Mainland China – Hong Kong border reopens. In particular, the restoration of quarantine-free travel provides catalysts for the revival of Hong Kong’s real estate, retail and tourism activities.

Looking forward, we will continue employing flexible asset management strategies under the proactive and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT. As Hong Kong economy gradually resumes normal, we will benefit from Kowloon East as a new premier CBD2 of Hong Kong. We also seek to capitalize on the strategic location of our flagship property, The Metropolis Tower, at Hung Hom Station, being the interchange station of Tuen Ma Line and East Rail Line with cross-harbour extension to Admiralty.

Acknowledgements

I would like to extend my sincere appreciation to all our staff, tenants, service providers and business partners, who have all made invaluable contributions towards helping us develop a solid foundation to prevail during uncertain times.

In particular, I am grateful to my fellow Board members and the management team for their unwavering commitment and relentless efforts.

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

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

Hong Kong, 9 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 31 December 2022, 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 2022, 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 2022, 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	2,845	95.7%
Prosperity Millennia Plaza	North Point	217,955	43	2,096	94.5%
9 Chong Yip Street	Kwun Tong	136,595	68	985	94.8%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,650	95.0%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,060	98.3%
Prosperity Center (portion)	Kwun Tong	149,253	105	826	99.2%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	339	100.0%
Total		1,275,153	498	9,801	96.3%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 96.3% as at 31 December 2022, reflecting the effectiveness of the leasing strategies deployed. With efficient streamlining of operations, the cost-to-revenue ratio was maintained at a steady level of 22.1%.

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

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 Year, a number of asset enhancement works have been carried out at The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street and Trendy Centre. Asset enhancement initiatives will continue in 2023 across the portfolio, with prudently planned payback periods.

The Metropolis Tower

The facelifting of ground floor main lobby and the selected typical floors at The Metropolis Tower have been completed. The renovated ground floor main lobby has incorporated prestigious design and a new green wall with a total area of approximately 550 sq. ft. comprised of over 2,000 plants, which created a warm and hospitable indoor environment. Moreover, for better energy efficiency, the indoor light intensity can be automatically adjusted by a smart lighting control system. Furthermore, a turnstiles system has been installed in order to enhance the security standard and building image. The renovation works for remaining typical floors will continue in 2023.

Prosperity Millennia Plaza

The facelifting of a selected typical floor at Prosperity Millennia Plaza has been completed. It has brought the environment of the common areas in line with the G/F lobby design and to stay competitive with the high standard new office buildings in close vicinity. The renovation works for remaining typical floors will continue in 2023.

Installation of Solar Panels at The Metropolis Tower, 9 Chong Yip Street and Trendy Centre

To deepen our Environmental, Social and Governance (ESG) footprint towards enhanced environmental performance and efficiencies, we have installed solar panels at the roof top at The Metropolis Tower, 9 Chong Yip Street and Trendy Centre in order to reduce energy use and greenhouse gases emissions. Together with the solar panels previously installed at Prosperity Place, the systems are expected to generate up to a total of approximately 108,728 units (kWh) of electricity each year.

Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	96,957	24,813	121,770	93,614
Prosperity Millennia Plaza	73,399	17,376	90,775	74,498
9 Chong Yip Street	33,939	5,157	39,096	30,713
Commercial				
Prosperity Place	64,482	8,936	73,418	56,065
Industrial/Office				
Trendy Centre	45,037	7,369	52,406	39,992
Prosperity Center (portion)	35,347	3,857	39,204	30,129
Industrial				
New Treasure Centre (portion)	14,835	2,503	17,338	12,894
Total	363,996	70,011	434,007	337,905

Revenue

During the Reporting Year, revenue decreased to HK\$434.0 million, being HK\$11.0 million or 2.5% lower than that of 2021. The decrease was mainly due to negative rental reversion rates recorded in The Metropolis Tower and Prosperity Millennia Plaza. Part of the negative impact was offsetted by the increase in rental related income from HK\$63.3 million to HK\$70.0 million, generated from the increase in management fee and air-conditioning income.

Net Property Income

For the Reporting Year, net property income was HK\$337.9 million, being HK\$14.2 million or 4.0% lower than that of 2021 mainly as a result of the decrease in revenue and COVID-19 related relief measures. The cost-to-revenue ratio was 22.1%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$245.0 million, representing a total DPU of HK\$0.1625. The distributable income for the Reporting Year is calculated by the REIT Manager 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 2022 to 31 December 2022 is HK\$113.6 million, equivalent to a DPU of HK\$0.0750. The interim DPU from 1 January 2022 to 30 June 2022 was HK\$0.0875. The total DPU for the Reporting Year is HK\$0.1625, which represents a distribution yield of 8.2%³. The DPU decreased by 7.8% year-on-year.

The distribution for the half year from 1 July 2022 to 31 December 2022 will be paid on 11 April 2023 (Tuesday).

Liquidity and Financing

As at 31 December 2022, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

- (i) A HK\$800 million 5-year unsecured sustainability-linked term loan, which will mature in August 2026 (the “**HK\$800 Million Facility**”); and
- (ii) A HK\$1,970 million unsecured sustainability-linked loan (the “**HK\$1,970 Million Facilities**”), comprising of (a) HK\$1,200 million 3-year term loan facility and revolving credit facility and (b) HK\$770 million 5-year term loan facility and revolving credit facility, was obtained in the Reporting Year and will mature in November 2025 and November 2027 respectively.

As at 31 December 2022, total facilities drawn was HK\$2,340 million and the revolving credit facilities of HK\$430 million remained undrawn.

³ Based on Prosperity REIT's closing unit price of HK\$1.99 as at 30 December 2022.

As at 31 December 2022, total facilities bear interest at Hong Kong Interbank Offered Rate (“**HIBOR**”) plus a margin ranging from 1.04% to 1.28% (31 December 2021: HIBOR plus a margin ranging from 0.82% to 1.05%) per annum. Interest margins are linked to the sustainability performance of Prosperity REIT, which may be reduced depending on the extent of pre-determined key performance indicators being met.

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 2022, the interest costs for approximately 55% (31 December 2021: 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 23.4% as at 31 December 2022 (31 December 2021: 23.0%), whereas the total liabilities of Prosperity REIT as a percentage of Prosperity REIT’s total assets was 28.9% as at 31 December 2022 (31 December 2021: 28.7%).

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 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Fair value at the beginning of the year	9,967,000	10,147,000
Additional expenditure	20,504	6,518
Change in fair value of investment properties	(186,504)	(186,518)
Fair value at the end of the year	9,801,000	9,967,000

Charges on Assets

As at 31 December 2022, 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 14,894,000 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\$42.8 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) HK\$'000
		Highest HK\$	Lowest HK\$	
<u>2022</u>				
January	3,728,000	3.10	3.03	11,483
February	311,000	3.07	3.05	953
March	3,408,000	2.99	2.77	9,812
April	5,943,000	2.92	2.69	16,504
May	1,504,000	2.75	2.65	4,092
	<u>14,894,000</u>			<u>42,844</u>

These units bought back (including those 639,000 units bought back with a consideration of approximately HK\$1,973,000, which have not been cancelled as at 31 December 2021) were cancelled prior to the Reporting Year end.

Save as disclosed above and other than the disposal of 3,605,000 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 27 March 2023 (Monday) to 28 March 2023 (Tuesday), 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 24 March 2023 (Friday). The payment date of the final distribution will be on 11 April 2023 (Tuesday).

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 2022.

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 2023 (Sunday).

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on 25 May 2023 (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 2022

	<i>Notes</i>	<i>2022</i> <i>HK\$'000</i>	<i>2021</i> <i>HK\$'000</i>
Revenue	3	434,007	444,981
Property management fees		(10,080)	(10,542)
Property operating expenses		(86,022)	(82,353)
Total property operating expenses		<u>(96,102)</u>	<u>(92,895)</u>
Net property income		337,905	352,086
Other income		806	580
Manager's fee		(49,691)	(50,580)
Trust and other expenses	5	(7,956)	(7,817)
Change in fair value of investment properties		(186,504)	(186,518)
Finance costs, net	6	<u>26,582</u>	<u>(9,462)</u>
Profit before taxation and transactions with unitholders		121,142	98,289
Taxation	7	<u>(46,251)</u>	<u>(41,269)</u>
Profit for the year, before transactions with unitholders		74,891	57,020
Distribution to unitholders		<u>(244,985)</u>	<u>(267,619)</u>
Loss for the year, after transactions with unitholders		(170,094)	(210,599)
Total comprehensive expense for the year, after transactions with unitholders		<u>(170,094)</u>	<u>(210,599)</u>
Income available for distribution to unitholders		<u>244,985</u>	<u>267,619</u>
Basic earnings per unit (HK\$)	8	<u>0.05</u>	<u>0.04</u>

Distribution Statement

For the year ended 31 December 2022

	2022 HK\$'000	2021 HK\$'000
Profit for the year, before transactions with unitholders	74,891	57,020
Adjustments:		
Manager's fee	48,629	49,504
Change in fair value of investment properties	186,504	186,518
Change in fair value of derivative financial instruments	(92,745)	(44,463)
Finance costs	8,040	7,979
Deferred tax	19,666	11,061
	<hr/>	<hr/>
Income available for distribution (note (i))	244,985	267,619
Distributions to unitholders:		
HK\$0.0875 (2021: HK\$0.0901) per unit for the six months ended 30 June (note (ii))	131,395	138,110
HK\$0.0750 (2021: HK\$0.0862) per unit for the six months ended 31 December (note (iii))	113,590	129,509
	<hr/>	<hr/>
	244,985	267,619
	<hr/>	<hr/>
Total distribution per unit (HK\$)	0.1625	0.1763
	<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\$48,629,000 (2021: HK\$49,504,000) out of the total manager's fee of HK\$49,691,000 (2021: HK\$50,580,000) (the differences of HK\$1,062,000 (2021: HK\$1,076,000) are paid in cash);

- (b) decrease in fair value of investment properties of HK\$186,504,000 (2021: HK\$186,518,000) and increase in fair value of derivative financial instruments of HK\$92,745,000 (2021: HK\$44,463,000);
- (c) adjustment in respect of the positive amount of finance costs of HK\$26,582,000 (2021: negative amount of HK\$9,462,000), adding back increase in fair value of derivative financial instruments of HK\$92,745,000 (2021: HK\$44,463,000) and less the cash finance costs of HK\$58,123,000 (2021: HK\$45,946,000); and
- (d) deferred tax provision of HK\$19,666,000 (2021: HK\$11,061,000).
- (ii) The distribution per unit of HK\$0.0875 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$0.0901) is calculated based on Prosperity REIT's income available for distribution of HK\$131,395,000 (six months ended 30 June 2021: HK\$138,110,000) over 1,501,690,737 units (30 June 2021: 1,532,773,868 units), representing units in issue as at 30 June 2022 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 nil units (2021: 1,694,000 units) bought back and cancelled prior to the date of declaration of the distribution. The distribution was paid to unitholders on 8 September 2022.
- (iii) The distribution per unit of HK\$0.0750 for the six months ended 31 December 2022 (six months ended 31 December 2021: HK\$0.0862) is calculated based on Prosperity REIT's income available for distribution of HK\$113,590,000 (six months ended 31 December 2021: HK\$129,509,000) over 1,513,978,943 units (31 December 2021: 1,503,056,502 units), representing units in issue as at 31 December 2022 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 nil units (2021: 4,678,000 units) bought back and cancelled prior to the date of declaration of the distribution.

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	9,801,000	9,967,000
Derivative financial instruments		32,185	-
Total non-current assets		<u>9,833,185</u>	<u>9,967,000</u>
Current assets			
Derivative financial instruments		37,991	-
Trade and other receivables	9	10,959	12,663
Bank balances and cash		100,366	205,960
Total current assets		<u>149,316</u>	<u>218,623</u>
Total assets		<u><u>9,982,501</u></u>	<u><u>10,185,623</u></u>
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		-	4,823
Borrowings	11	2,306,789	788,155
Deferred tax liabilities		250,774	231,108
Total non-current liabilities, excluding net assets attributable to unitholders		<u>2,557,563</u>	<u>1,024,086</u>
Current liabilities			
Derivative financial instruments		-	17,746
Trade and other payables	10	181,309	190,936
Amounts due to related companies		7,862	8,219
Borrowings	11	-	1,535,064
Provision for taxation		11,345	4,907
Manager's fee payable		12,343	12,553
Distribution payable		113,590	129,509
Total current liabilities		<u>326,449</u>	<u>1,898,934</u>
Total liabilities, excluding net assets attributable to unitholders		<u>2,884,012</u>	<u>2,923,020</u>
Net assets attributable to unitholders		<u><u>7,098,489</u></u>	<u><u>7,262,603</u></u>
Units in issue ('000)	12	<u>1,508,461</u>	<u>1,503,747</u>
Net asset value per unit (HK\$) attributable to unitholders	14	<u>4.71</u>	<u>4.83</u>

Notes

(1) General:

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on the Stock Exchange since 16 December 2005. Prosperity REIT is governed by the Trust Deed made between the REIT Manager and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the “**Group**”) is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

Application of 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 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 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 2020 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.

The 2022 Amendments modify the requirements introduced by the 2020 Amendments on how an entity classifies debt and other financial liabilities with covenants as current or non-current. The 2022 Amendments specify that only covenants with which the entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

The 2022 Amendments also specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the amendments will not result in reclassification of the Group's liabilities.

The REIT Manager anticipates that the application of remaining 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>2022</i> <i>HK\$'000</i>	<i>2021</i> <i>HK\$'000</i>
Gross rental from investment properties		
Rental income	333,425	350,659
Car park income	30,571	31,008
	<u>363,996</u>	<u>381,667</u>
Rental related income	70,011	63,314
	<u>434,007</u>	<u>444,981</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in seven (2021: 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 2022

	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	96,957	73,399	33,939	64,482	45,037	35,347	14,835	363,996
Rental related income	24,813	17,376	5,157	8,936	7,369	3,857	2,503	70,011
Segment revenue in Hong Kong	121,770	90,775	39,096	73,418	52,406	39,204	17,338	434,007
Segment profit	93,614	74,498	30,713	56,065	39,992	30,129	12,894	337,905
Other income								806
Manager's fee								(49,691)
Trust and other expenses								(7,956)
Change in fair value of investment properties								(186,504)
Finance costs, net								26,582
Profit before taxation and transactions with unitholders								121,142

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
	<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	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
Other income								580
Manager's fee								(50,580)
Trust and other expenses								(7,817)
Change in fair value of investment properties								(186,518)
Finance costs, net								(9,462)
Profit before taxation and transactions with unitholders								98,289

(5) Trust and other expenses:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Audit fee	192	192
Bank charges	1,298	1,358
Legal and professional fees	812	512
Public relations-related expenses	208	156
Registrar fee	600	600
Trust administrative expenses	1,870	1,989
Trustee's fee	2,976	3,010
	<u>7,956</u>	<u>7,817</u>

(6) Finance costs, net:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest expense on bank borrowings	60,156	31,419
Interest rate swaps expenses realised	6,007	22,506
	<u>66,163</u>	<u>53,925</u>
Change in fair value of derivative financial instruments	(92,745)	(44,463)
	<u>(26,582)</u>	<u>9,462</u>

(7) Taxation:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax	26,939	30,562
Over-provision in prior year	(354)	(354)
Deferred tax	19,666	11,061
	<u>46,251</u>	<u>41,269</u>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2021: 16.5%) for the year ended 31 December 2022.

No provision for Hong Kong Profits Tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates.

- (8) The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$74,891,000 (2021: HK\$57,020,000) by the weighted average of 1,505,738,251 (2021: 1,528,106,100) 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>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	5,906	5,254
Less: allowance for credit losses	(3,361)	(1,278)
	<u>2,545</u>	<u>3,976</u>
Deposit and prepayments and other receivables	8,414	8,687
	<u>10,959</u>	<u>12,663</u>

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

	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	102	54
2 – 3 months	2,443	3,922
	<u>2,545</u>	<u>3,976</u>

(10) Trade and other payables:

	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,304	2,893
Tenants' deposits		
- Outside parties	132,372	139,284
- Related parties	706	727
Rental received in advance		
- Outside parties	5,351	4,913
Other payables	40,576	43,119
	<u>181,309</u>	<u>190,936</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>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	1,069	895
2 – 3 months	347	1,306
Over 3 months	888	692
	<u>2,304</u>	<u>2,893</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\$78,479,000 (2021: HK\$81,996,000).

(11) Borrowings:

	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(33,211)	(16,781)
	<u>2,306,789</u>	<u>2,323,219</u>
Carrying amount repayable:		
Within one year	-	1,535,064
Within a period of more than one year but not exceeding five years	2,306,789	788,155
	<u>2,306,789</u>	<u>2,323,219</u>
Less: Amount due within one year shown under current liabilities	-	(1,535,064)
	<u>2,306,789</u>	<u>788,155</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
Balance as at 1 January 2021	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	1,503,747,330	3,234,263
Payment of manager's base fee and variable fee through issuance of new units during the year	20,246,925	48,835
Units bought back and cancelled	<u>(15,533,000)</u>	<u>(44,828)</u>
Balance as at 31 December 2022	<u>1,508,461,255</u>	<u>3,238,270</u>

(13) Investment properties:

	<i>31 Dec 2022</i> <i>HK\$'000</i>	<i>31 Dec 2021</i> <i>HK\$'000</i>
Fair value		
At the beginning of the year	9,967,000	10,147,000
Additional expenditure	20,504	6,518
Change in fair value of investment properties	<u>(186,504)</u>	<u>(186,518)</u>
At the end of the year	<u>9,801,000</u>	<u>9,967,000</u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,508,461,255 units in issue as at 31 December 2022 (1,503,747,330 units in issue as at 31 December 2021).
- (15) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$177,133,000 (2021: HK\$1,680,311,000) and the Group's total assets less current liabilities amounted to HK\$9,656,052,000 (2021: HK\$8,286,689,000). 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), Mr. Wong Kwai Lam and Ms. Ng Shieu Yeing, Christina as Independent Non-executive Directors.