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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

2022 INTERIM RESULTS ANNOUNCEMENT

Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended, supplemented and/or restated from time to time (the “**Trust Deed**”) between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the “**REIT Manager**”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT (the “**Trustee**”). Prosperity REIT was the first private sector real estate investment trust (“**REIT**”) to list on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 December 2005. Prosperity REIT currently owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager would like to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2022 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2021 as follows:

Performance Highlights

<u>Distribution</u>	<u>Six months ended 30 Jun 2022 (unaudited)</u>	<u>Six months ended 30 Jun 2021 (unaudited)</u>	<u>Percentage change Increase/(Decrease)</u>
Income available for distribution	HK\$131.4 million	HK\$138.1 million	(4.9%)
Distribution per unit (“DPU”)	HK\$0.0875	HK\$0.0901	(2.9%)

<u>Operation data</u>	<u>Six months ended 30 Jun 2022 (unaudited)</u>	<u>Six months ended 30 Jun 2021 (unaudited)</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$218.6 million	HK\$224.4 million	(2.6%)
Net property income	HK\$172.2 million	HK\$180.4 million	(4.5%)
Occupancy rate (as at 30 June)	96.0%	96.0%	0% ²
Cost-to-revenue ratio	21.2%	19.6%	1.6% ²

<u>Key financial figures</u>	<u>As at 30 Jun 2022 (unaudited)</u>	<u>As at 31 Dec 2021 (audited)</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$4.81	HK\$4.83	(0.4%)
Property valuation	HK\$9,894 million	HK\$9,967 million	(0.7%)
Gearing ratio ¹	23.1%	23.0%	0.1% ²

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

² Absolute change.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 30 June 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 30 June 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 30 June 2022, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	2,929	91.5%
Prosperity Millennia Plaza	North Point	217,955	43	2,122	95.0%
9 Chong Yip Street	Kwun Tong	136,595	68	1,003	97.6%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,650	98.8%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,030	94.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	826	99.2%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	334	100.0%
Total		<u>1,275,153</u>	<u>498</u>	<u>9,894</u>	<u>96.0%</u>

During the Reporting Period, global economic recovery has been tempered by a chain of unprecedented headwinds including geopolitical fallout, supply chain disruptions, intermittent COVID-19 resurgences, as well as inflation pressures.

In US, a high inflation rate of 9.1% year-on-year (“YoY”) has been recorded in June 2022. The Federal Reserve has moved expeditiously by hiking rates to a range of 2.25% to 2.50%, with further rate hikes anticipated in second half of this year. Additionally, the Federal Reserve began its quantitative tightening process by reducing its balance sheet since June 2022.

In Mainland China, GDP growth in 2Q 2022 slowed to 0.4% YoY, attributable to city lockdowns under pandemic outbreaks. Accommodative monetary and fiscal policies were generally maintained in Mainland China to reinvigorate economic growth.

In Hong Kong, stringent social distancing restrictions stemming from the Fifth Wave pandemic led to economic contraction of 3.9% and 1.4% YoY in 1Q and 2Q 2022 respectively. The leasing market remained subdued during the Reporting Period, but encouraging signs emerged recently with rents and occupancy rates bottoming out under relaxed social distancing measures. The key themes of cost-effective decentralization, downsizing and consolidation prevailed. Corporations would opt for value-for-money office spaces.

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

During the Reporting Period, whilst occupancy rate remained stable at 96.0%, average effective unit rent of the portfolio dropped by 4.8% YoY to HK\$22.84 per sq. ft. and a negative rental reversion was registered. Our proactive yet nimble leasing strategies, premium quality properties, as well as attentive property management services have helped mitigate impacts arising from market adversity.

As at 30 June 2022, Prosperity REIT's gearing ratio remained at a healthy level of 23.1% (31 December 2021: 23.0%), providing us with a strong balance sheet to withstand economic volatility and to take advantage of future growth opportunities.

Outlook

Against the backdrop of downside risks including rising interest rate, inflation, geopolitical tensions, COVID-19 variant outbreaks and supply chain strains, the World Bank has downgraded the 2022 global GDP growth forecast from 4.1% to 2.9%. Likewise, Hong Kong GDP growth forecast is cut to 1.0% - 2.0% in 2022. Nonetheless, stimuli for Hong Kong economy's rebound include consumption voucher scheme, easing travelling restrictions, revival of IPO pipeline and containment of the pandemic.

Looking forward, we will strive to deploy flexible asset management strategies under the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT. We will capitalize on opportunities brought by Kowloon East as a new premier CBD2 of Hong Kong. We also seek to prosper from the strategic location of Hung Hom station, being the interchange station of Tuen Ma Line and East Rail Line, with our flagship property, The Metropolis Tower.

Investment Review

The REIT Manager will continue to seek out potential acquisition opportunities. We will assess every acquisition target prudently in accordance with our established investment criteria, including the enhancement potential of asset value, organic growth prospects and synergies with existing properties in the portfolio.

Asset Enhancement

Asset enhancement is a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties is another way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, an asset enhancement work has been carried out at The Metropolis Tower.

Concurrent with the opening of the Cross-Harbour Extension of East Rail Line, the facelifting of ground floor main lobby at The Metropolis Tower has been completed. The renovated lobby incorporates a contemporary design with a new 550 sq. ft. area green wall composed of over 2,000 plants, thus creating 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. A turnstiles system has also been installed in order to enhance the security standard and building image.

Financial Review

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

	Turnover <i>HK\$'000</i>	Rental related income <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Net property income <i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	49,846	12,262	62,108	49,292
Prosperity Millennia Plaza	37,217	8,520	45,737	37,901
9 Chong Yip Street	17,203	2,420	19,623	15,748
Commercial				
Prosperity Place	32,336	4,498	36,834	28,018
Industrial/Office				
Trendy Centre	22,165	3,728	25,893	19,528
Prosperity Center (portion)	17,890	1,943	19,833	15,456
Industrial				
New Treasure Centre (portion)	7,371	1,169	8,540	6,301
Total	184,028	34,540	218,568	172,244

Revenue

During the Reporting Period, revenue decreased to HK\$218.6 million, being HK\$5.8 million or 2.6% lower than the last corresponding half year. The decrease was mainly due to the negative rental reversion rates in The Metropolis Tower and Prosperity Millennia Plaza.

Net Property Income

For the Reporting Period, the net property income was HK\$172.2 million, being HK\$8.2 million or 4.5% lower than the last corresponding half year mainly as a result of the decrease in revenue and COVID-19 related relief measures. The cost-to-revenue ratio was 21.2%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$131.4 million, representing a DPU of HK\$0.0875. This represents an annualized distribution yield of 7.3%³. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost (differences between cash and accounting finance costs) of HK\$3.9 million (equivalent to HK\$0.0026 per unit), which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the Reporting Period.

Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

Liquidity and Financing

As at 30 June 2022, 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
- (ii) A HK\$800 million unsecured sustainability-linked 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 30 June 2022.

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

³Based on Prosperity REIT's closing unit price of HK\$2.40 as at 30 June 2022.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2022, the interest costs for approximately 79% (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 facility origination fees, as a percentage of Prosperity REIT's total assets was 23.1% as at 30 June 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 30 June 2022 (31 December 2021: 28.7%).

Taking into account the fair value of investment properties, currently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT has sufficient financial resources to satisfy its commitments and working capital requirements.

Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation loss of HK\$82.3 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	9,967,000	10,147,000
Additional expenditure	9,312	6,518
Change in fair value of investment properties	(82,312)	(186,518)
Fair value at the end of the period/year	<u>9,894,000</u>	<u>9,967,000</u>

Charges on Assets

As at 30 June 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 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 during the Reporting Period 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) <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
<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	<u>1,504,000</u>	2.75	2.65	<u>4,092</u>
	<u>14,894,000</u>			<u>42,844</u>

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

Save as disclosed above and other than the disposal of 2,000,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no other repurchase, sale or redemption of units by Prosperity REIT or its subsidiaries during the Reporting Period.

CORPORATE GOVERNANCE

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “**Compliance Manual**”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with the applicable regulations and legislation. During the Reporting Period, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Monday, 29 August 2022 to Tuesday, 30 August 2022, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 26 August 2022. The payment date of interim distribution will be on Thursday, 8 September 2022.

REVIEW OF INTERIM RESULTS

The interim results of Prosperity REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2022.

ISSUANCE OF INTERIM REPORT

The Interim Report of Prosperity REIT for the Reporting Period will be published on the websites of the Stock Exchange and Prosperity REIT and will be dispatched or sent to unitholders on or before Friday, 30 September 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Six months ended 30 June</i>		
	<i>2022</i>	<i>2021</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	3	218,568	224,389
Property management fees		(5,097)	(5,356)
Property operating expenses		(41,227)	(38,606)
Total property operating expenses		<u>(46,324)</u>	<u>(43,962)</u>
Net property income		172,244	180,427
Other income		511	510
Manager's fee		(24,865)	(25,347)
Trust and other expenses	5	(4,158)	(4,251)
Change in fair value of investment properties		(82,312)	(195,965)
Finance costs	6	36,988	(8,109)
Profit/(Loss) before taxation and transactions with unitholders		98,408	(52,735)
Taxation	7	(19,660)	(20,942)
Profit/(Loss) for the period, before transactions with unitholders		78,748	(73,677)
Distribution to unitholders		<u>(131,395)</u>	<u>(138,110)</u>
Loss for the period, after transactions with unitholders		<u>(52,647)</u>	<u>(211,787)</u>
Total comprehensive expense for the period, after transactions with unitholders		<u>(52,647)</u>	<u>(211,787)</u>
Income available for distribution to unitholders		<u>131,395</u>	<u>138,110</u>
Basic profit/(loss) per unit (HK\$)	8	<u>0.05</u>	<u>(0.05)</u>

DISTRIBUTION STATEMENT

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit/(Loss) for the period, before transactions with unitholders	78,748	(73,677)
Adjustments:		
Manager's fee	24,333	24,807
Change in fair value of investment properties	82,312	195,965
Change in fair value of derivative financial instruments	(63,483)	(18,480)
Finance costs	3,934	3,964
Deferred tax	5,551	5,531
Income available for distribution (note (i))	131,395	138,110
Distributions to unitholders:		
For the six months ended 30 June	131,395	138,110
Distribution per unit (HK\$) (note (ii))	0.0875	0.0901

Notes:

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

These adjustments for the half year comprise:

- (a) manager's fee paid and payable in units of HK\$24,333,000 (2021: HK\$24,807,000) out of the total manager's fee of HK\$24,865,000 (2021: HK\$25,347,000) (the difference of HK\$532,000 (2021: HK\$540,000) is paid in cash);
- (b) decrease in fair value of investment properties of HK\$82,312,000 (2021: HK\$195,965,000) and increase in fair value of derivative financial instruments of HK\$63,483,000 (2021: HK\$18,480,000);

- (c) adjustment in respect of the positive amount of finance costs of HK\$36,988,000 (2021: negative amount of HK\$8,109,000), adding back increase in fair value of derivative financial instruments of HK\$63,483,000 (2021: HK\$18,480,000) and less the cash finance costs of HK\$22,561,000 (2021: HK\$22,625,000); and
- (d) deferred tax provision of HK\$5,551,000 (2021: HK\$5,531,000).
- (ii) The DPU of HK\$0.0875 (2021: HK\$0.0901) is calculated based on Prosperity REIT's income available for distribution of HK\$131,395,000 (2021: HK\$138,110,000) over 1,501,690,737 units (2021: 1,532,773,868 units), representing units in issue as at 30 June 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 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 Jun 2022 HK\$'000 (unaudited)	31 Dec 2021 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	9,894,000	9,967,000
Derivative financial instruments		32,902	-
Total non-current assets		<u>9,926,902</u>	<u>9,967,000</u>
Current assets			
Derivative financial instruments		10,456	-
Trade and other receivables	9	14,147	12,663
Bank balances and cash		157,386	205,960
Total current assets		<u>181,989</u>	<u>218,623</u>
Total assets		<u>10,108,891</u>	<u>10,185,623</u>
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		-	4,823
Borrowings	11	789,414	788,155
Deferred tax liabilities		236,659	231,108
Total non-current liabilities, excluding net assets attributable to unitholders		<u>1,026,073</u>	<u>1,024,086</u>
Current liabilities			
Derivative financial instruments		2,444	17,746
Trade and other payables	10	181,466	190,936
Amounts due to related companies		6,771	8,219
Borrowings	11	1,537,739	1,535,064
Provision for taxation		19,016	4,907
Manager's fee payable		12,417	12,553
Distribution payable		131,395	129,509
Total current liabilities		<u>1,891,248</u>	<u>1,898,934</u>
Total liabilities, excluding net assets attributable to unitholders		<u>2,917,321</u>	<u>2,923,020</u>
Net assets attributable to unitholders		<u>7,191,570</u>	<u>7,262,603</u>
Units in issue ('000)	12	<u>1,496,625</u>	<u>1,503,747</u>
Net asset value per unit (HK\$) attributable to unitholders	14	<u>4.81</u>	<u>4.83</u>

Notes

(1) Principal Accounting Policies:

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed 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 interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

(2) Basis of preparation:

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

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and the relevant disclosure requirements set out in Appendix C to the REIT Code.

The REIT Manager is, at the time of approving the condensed consolidated financial statements, negotiating with banks to obtain new bank facilities and/or contemplating to renew existing bank borrowing which will mature within one year from the end of the Reporting Period. Taking into account the headroom of the fair value of investment properties of HK\$9,894,000,000, presently available bank facilities and internal financial resources of the Group, the REIT Manager is of the opinion that the Group has sufficient working capital for its present requirements within one year from the end of the Reporting Period. Thus the Group continue to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Rental income	169,220	178,111
Car park income	14,808	14,951
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	184,028	193,062
Rental related income	34,540	31,327
	<hr/>	<hr/>
	218,568	224,389

(4) Segment information:

During the Reporting Period, Prosperity REIT invested in seven (2021: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennium Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

Six months ended 30 June 2022 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	49,846	37,217	17,203	32,336	22,165	17,890	7,371	184,028
Rental related income	12,262	8,520	2,420	4,498	3,728	1,943	1,169	34,540
Segment revenue in Hong Kong	62,108	45,737	19,623	36,834	25,893	19,833	8,540	218,568
Segment profit	49,292	37,901	15,748	28,018	19,528	15,456	6,301	172,244
Interest income								511
Manager's fee								(24,865)
Trust and other expenses								(4,158)
Change in fair value of investment properties								(82,312)
Finance costs								36,988
Profit before taxation and transactions with unitholders								98,408

Six months ended 30 June 2021 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	54,609	39,991	17,705	33,625	22,584	16,970	7,578	193,062
Rental related income	11,474	7,570	2,261	3,455	3,552	1,797	1,218	31,327
Segment revenue in Hong Kong	66,083	47,561	19,966	37,080	26,136	18,767	8,796	224,389
Segment profit	54,884	39,338	16,209	29,636	20,222	13,543	6,595	180,427
Interest income								510
Manager's fee								(25,347)
Trust and other expenses								(4,251)
Change in fair value of investment properties								(195,965)
Finance costs								(8,109)
Loss before taxation and transactions with unitholders								(52,735)

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	96	96
Bank charges	648	710
Legal and professional fees	406	256
Public relations and related expenses	31	74
Registrar fee	300	300
Trust administrative expenses	1,188	1,310
Trustee's fee	1,489	1,505
	<hr/>	<hr/>
	4,158	4,251
	<hr/> <hr/>	<hr/> <hr/>

(6) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on bank borrowings	16,847	15,849
Interest rate swaps expenses realised	9,648	10,740
	<hr/>	<hr/>
	26,495	26,589
Change in fair value of derivative financial instruments	(63,483)	(18,480)
	<hr/>	<hr/>
	(36,988)	8,109
	<hr/> <hr/>	<hr/> <hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	14,109	15,411
Deferred tax	5,551	5,531
	<hr/>	<hr/>
	19,660	20,942
	<hr/> <hr/>	<hr/> <hr/>

The estimated tax rate used is 16.5% for the period under review. No provision for Hong Kong Profits Tax is required for certain subsidiaries as these subsidiaries did not have any assessable profits for the period or the assessable profit is wholly absorbed by tax losses brought forward.

Deferred tax is provided on temporary differences relating to accelerated tax depreciation and tax losses using the estimated tax rate.

(8) Basic profit/(loss) per unit:

The basic profit/(loss) per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$78,748,000 (2021: loss of HK\$73,677,000) by the weighted average of 1,503,288,514 (2021: 1,533,427,608) units in issue during the period, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution period.

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

(9) Trade and other receivables:

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	7,246	5,254
Less: allowance for credit losses	(2,475)	(1,278)
	<hr/> 4,771	<hr/> 3,976
Deposits, prepayments and other receivables	9,376	8,687
	<hr/> 14,147	<hr/> 12,663
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	120	54
2 – 3 months	4,651	3,922
	<hr/> 4,771	<hr/> 3,976
	<hr/> <hr/>	<hr/> <hr/>

(10) Trade and other payables:

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	1,518	2,893
Tenants' deposits		
- Outside parties	134,697	139,284
- Related parties	720	727
Rental received in advance		
- Outside parties	5,287	4,913
Other payables	39,244	43,119
	<hr/>	<hr/>
	181,466	190,936
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	234	895
1 – 3 months	391	1,306
Over 3 months	893	692
	<hr/>	<hr/>
	1,518	2,893
	<hr/> <hr/>	<hr/> <hr/>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of the Reporting Period based on the lease terms amounted to HK\$77,784,000 as at 30 June 2022 (31 December 2021: HK\$81,996,000).

(11) Borrowings:

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(12,847)	(16,781)
	<hr/> 2,327,153	<hr/> 2,323,219
Carrying amount repayable:		
Within one year	1,537,739	1,535,064
Within a period of more than one year but not exceeding five years	789,414	788,155
	<hr/> 2,327,153	<hr/> 2,323,219
Less: Amount due within one year shown under current liabilities	(1,537,739)	(1,535,064)
	<hr/> 789,414	<hr/> 788,155
	<hr/> <hr/>	<hr/> <hr/>

(12) Units in issue:

	Number of units	HK\$'000
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	(38,504,000)	(117,150)
Balance as at 31 December 2021	<hr/> 1,503,747,330	<hr/> 3,234,263
Payment of Manager's base fee and variable fee through issuance of new units during the period	8,410,850	24,469
Units bought back and cancelled	(15,533,000)	(44,828)
Balance as at 30 June 2022	<hr/> 1,496,625,180	<hr/> 3,213,904
	<hr/> <hr/>	<hr/> <hr/>

(13) Investment properties:

	<i>30 Jun 2022</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2021</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	9,967,000	10,147,000
Additional expenditure	9,312	6,518
Change in fair value of investment properties	(82,312)	(186,518)
Fair value at the end of the period/year	<u>9,894,000</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 1,496,625,180 units in issue as at 30 June 2022 (31 December 2021: 1,503,747,330 units).
- (15) At the end of the Reporting Period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,709,259,000 (31 December 2021: HK\$1,680,311,000) and the Group's total assets less current liabilities amounted to HK\$8,217,643,000 (31 December 2021: HK\$8,286,689,000).
- (16) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager, and by Prosperity REIT's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 11 August 2022

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.