

*The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **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**



## **2023 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 2023 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2022 as follows:

### **Performance Highlights**

<b><u>Distribution</u></b>	<b><u>Six months ended 30 Jun 2023 (unaudited)</u></b>	<b><u>Six months ended 30 Jun 2022 (unaudited)</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Income available for distribution	HK\$113.8 million	HK\$131.4 million	(13.4%)
Distribution per unit (“DPU”)	HK\$0.0745	HK\$0.0875	(14.9%)

<b><u>Operation data</u></b>	<b><u>Six months ended 30 Jun 2023 (unaudited)</u></b>	<b><u>Six months ended 30 Jun 2022 (unaudited)</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Revenue	HK\$217.4 million	HK\$218.6 million	(0.5%)
Net property income	HK\$167.8 million	HK\$172.2 million	(2.6%)
Occupancy rate (as at 30 June)	97.0%	96.0%	1.0% <sup>2</sup>
Tenant retention rate	75.4%	79.6%	(4.2%) <sup>2</sup>
Cost-to-revenue ratio	22.8%	21.2%	1.6% <sup>2</sup>

<b><u>Key financial figures</u></b>	<b><u>As at 30 Jun 2023 (unaudited)</u></b>	<b><u>As at 31 Dec 2022 (audited)</u></b>	<b><u>Percentage change Increase/(Decrease)</u></b>
Net asset value per unit	HK\$4.59	HK\$4.71	(2.5%)
Property valuation	HK\$9,703 million	HK\$9,801 million	(1.0%)
Gearing ratio <sup>1</sup>	23.7%	23.4%	0.3% <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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 30 June 2023, 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 2023, 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 2023, was as follows:

	<b>Location</b>	<b>Gross rentable area sq. ft.</b>	<b>No. of car park spaces</b>	<b>Valuation HK\$ million</b>	<b>Occupancy rate</b>
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	2,768	98.2%
Prosperity Millennia Plaza	North Point	217,955	43	2,067	96.0%
9 Chong Yip Street	Kwun Tong	136,595	68	973	96.5%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,650	93.8%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,074	97.1%
Prosperity Center (portion)	Kwun Tong	149,253	105	826	100%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	345	100%
<b>Total</b>		<u>1,275,153</u>	<u>498</u>	<u>9,703</u>	<u>97.0%</u>

During the Reporting Period, global economies faced headwinds including elevated interest rates, energy prices, inflation, geopolitical conflicts and trade tensions. However, the post-COVID reopening of Mainland China and Hong Kong have injected a degree of optimism amid the challenging economic environment.

In the US, the Fed has continued to hike rates by 100bps year-to-date to a range of 5.25% - 5.50%. Inflation moderated to 3.0% year-on-year (“YoY”) in June 2023. Economic activity remained steady, with 2Q 2023 GDP growth at 2.6% YoY.

Fueled by a notable increase in spending on goods and services, GDP in Mainland China surged 6.3% YoY in 2Q 2023. Accommodative macroeconomic policies are in place to stimulate economic growth.

Hong Kong's GDP is gradually recovering on the back of the upturn in inbound tourism and domestic demand after a return to normalcy. The labor market condition was encouraging, as the 2Q 2023 unemployment rate fell to 2.9%.

With improved sentiment on the economic outlook, overall office leasing demand is picking up. The key themes for the office market are cost-effectiveness, attention to wellness, and flexible workplace configuration. Despite of abundant new office supply, rents and occupancy rates are stabilizing as the economy revives.

Prosperity REIT focuses on retaining tenants for achieving stable occupancy and income stream. During the Reporting Period, high occupancy rate at 97.0% and tenant retention rate at 75.4% were achieved. Average effective unit rent of the portfolio was HK\$22.29 per sq. ft. and negative portfolio rental reversion continued to narrow. Although negative rental reversions have been registered in our Grade A office properties, rental reversions at the other properties started to be back to positive range. 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 2023, Prosperity REIT's gearing ratio was maintained at a healthy level of 23.7%, providing us with a strong balance sheet to withstand interest rate volatility and to take advantage of future growth opportunities.

## **Outlook**

The International Monetary Fund has forecasted global GDP growth at 3.0% in 2023 after taking into account of the reopening of Mainland China. The Hong Kong economy remains on track for sustained growth in 2023, but high interest rates remain a concern. Our portfolio rental reversion rate has gained momentum especially under a low base effect.

Leveraging Hong Kong economic recovery momentum, we will pursue opportunities unleashed by Kowloon East as a thriving premier CBD2, and the enhanced transportation connectivity from the Tuen Ma Line and East Rail Line with cross-harbour extension to Admiralty.

## **Investment Review**

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

## **Asset Enhancement**

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

### **The Metropolis Tower**

The renovation of passenger lift lobby and corridor on typical floors at The Metropolis Tower is in progress. This facelifting work has incorporated design which creates a warm and hospitable indoor environment for our tenants. Moreover, considering the higher running and maintenance costs of the aged chiller sets of the MVAC system, we have completed the replacement of one set out of a total of three sets with a more energy-efficient model.

### **Prosperity Millennia Plaza**

The renovation of passenger lift lobby and corridor on typical floors at Prosperity Millennia Plaza is in progress. This facelifting work has brought the environment of the entire building in coherent design and to stay competitive with the high standard new office buildings in close vicinity.

## **Financial Review**

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

	<b>Turnover</b> <i>HK\$'000</i>	<b>Rental related income</b> <i>HK\$'000</i>	<b>Revenue</b> <i>HK\$'000</i>	<b>Net property income</b> <i>HK\$'000</i>
<b>Grade A Office</b>				
The Metropolis Tower	48,219	13,410	61,629	47,821
Prosperity Millennia Plaza	36,817	9,183	46,000	37,272
9 Chong Yip Street	15,811	2,510	18,321	13,361
<b>Commercial</b>				
Prosperity Place	31,284	4,637	35,921	27,092
<b>Industrial/Office</b>				
Trendy Centre	23,258	3,973	27,231	20,722
Prosperity Center (portion)	17,328	2,075	19,403	14,894
<b>Industrial</b>				
New Treasure Centre (portion)	7,671	1,219	8,890	6,655
<b>Total</b>	<b>180,388</b>	<b>37,007</b>	<b>217,395</b>	<b>167,817</b>

### **Revenue**

During the Reporting Period, revenue decreased to HK\$217.4 million, being HK\$1.2 million or 0.5% lower than the last corresponding half year. The decrease was mainly due to the frictional tenancy movements in certain properties. Part of the negative impact was offset by the increase in rental related income from HK\$34.5 million to HK\$37.0 million, as well as positive rental reversions registered in Trendy Centre and New Treasure Centre.

### **Net Property Income**

For the Reporting Period, the net property income was HK\$167.8 million, being HK\$4.4 million or 2.6% lower than the last corresponding half year mainly as a result of the increase in lease commission as well as landlord's provision expenses for new lettings committed. The cost-to-revenue ratio was 22.8%.

### Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$113.8 million, representing a DPU of HK\$0.0745. This represents an annualized distribution yield of 8.5%<sup>3</sup>. 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\$4.5 million (equivalent to HK\$0.0029 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 2023, 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) HK\$1,970 million unsecured sustainability-linked loans (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, which will mature in November 2025 and November 2027 respectively.

As at 30 June 2023, total facilities drawn was HK\$2,340 million and the revolving credit facilities of HK\$430 million remained undrawn. The total facilities bear interest at Hong Kong Interbank Offered Rate (“**HIBOR**”) plus a margin ranging from 1.04% to 1.28% (31 December 2022: HIBOR plus a margin ranging from 1.04% to 1.28%) 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.

---

<sup>3</sup>Based on Prosperity REIT's closing unit price of HK\$1.76 as at 30 June 2023.

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 2023, the interest costs for approximately 55% (31 December 2022: 55%) 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 23.7% as at 30 June 2023 (31 December 2022: 23.4%), whereas the total liabilities of Prosperity REIT as a percentage of Prosperity REIT's total assets was 29.4% as at 30 June 2023 (31 December 2022: 28.9%).

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\$109.1 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 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	9,801,000	9,967,000
Additional expenditure	11,101	20,504
Change in fair value of investment properties	(109,101)	(186,504)
Fair value at the end of the period/year	<u>9,703,000</u>	<u>9,801,000</u>

#### Charges on Assets

As at 30 June 2023, 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**

There was no 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, 4 September 2023 to Tuesday, 5 September 2023, 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, 1 September 2023. The payment date of interim distribution will be on Thursday, 14 September 2023.

## **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 2023.

## **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 Saturday, 30 September 2023.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2023*

		<i>Six months ended 30 June</i>	
		<i>2023</i>	<i>2022</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Revenue</b>	3	217,395	218,568
Property management fees		(4,973)	(5,097)
Property operating expenses		(44,605)	(41,227)
Total property operating expenses		<u>(49,578)</u>	<u>(46,324)</u>
<b>Net property income</b>		167,817	172,244
Other income		517	511
Manager's fee		(24,378)	(24,865)
Trust and other expenses	5	(4,081)	(4,158)
Change in fair value of investment properties		(109,101)	(82,312)
Finance costs, net	6	<u>(54,216)</u>	<u>36,988</u>
<b>(Loss) / profit before taxation and transactions with unitholders</b>		(23,442)	98,408
Taxation	7	<u>(15,073)</u>	<u>(19,660)</u>
<b>(Loss) / profit for the period, before transactions with unitholders</b>		(38,515)	78,748
Distribution to unitholders		<u>(113,771)</u>	<u>(131,395)</u>
<b>Loss for the period, after transactions with unitholders</b>		<u>(152,286)</u>	<u>(52,647)</u>
<b>Total comprehensive expense for the period, after transactions with unitholders</b>		<u>(152,286)</u>	<u>(52,647)</u>
<b>Income available for distribution to unitholders</b>		<u>113,771</u>	<u>131,395</u>
<b>Basic (loss) / profit per unit (HK\$)</b>	8	<u>(0.03)</u>	<u>0.05</u>

## DISTRIBUTION STATEMENT

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>(Loss) / profit for the period, before transactions with unitholders</b>	(38,515)	78,748
<b>Adjustments:</b>		
Manager's fee	23,870	24,333
Change in fair value of investment properties	109,101	82,312
Change in fair value of derivative financial instruments	12,120	(63,483)
Non-cash finance costs	4,456	3,934
Deferred tax	2,739	5,551
<b>Income available for distribution (note (i))</b>	<b>113,771</b>	<b>131,395</b>
<b>Distributions to unitholders:</b>		
For the six months ended 30 June	113,771	131,395
<b>Distribution per unit (HK\$) (note (ii))</b>	<b>0.0745</b>	<b>0.0875</b>

Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the 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\$23,870,000 (six months ended 30 June 2022: HK\$24,333,000) out of the total manager's fee of HK\$24,378,000 (six months ended 30 June 2022: HK\$24,865,000) (the difference of HK\$508,000 (six months ended 30 June 2022: HK\$532,000) is paid in cash);
- (b) decrease in fair value of investment properties of HK\$109,101,000 (six months ended 30 June 2022: HK\$82,312,000) and decrease in fair value of derivative financial instruments of HK\$12,120,000 (six months ended 30 June 2022: increase in fair value of HK\$63,483,000);

- (c) non-cash finance costs of HK\$4,456,000 (six months ended 30 June 2022: HK\$3,934,000), are derived from the negative amount of finance costs of HK\$54,216,000 (six months ended 30 June 2022: positive amount of HK\$36,988,000), less decrease in fair value of derivative financial instruments of HK\$12,120,000 (six months ended 30 June 2022: adding back increase in fair value of HK\$63,483,000) and less the cash finance costs of HK\$37,640,000 (six months ended 30 June 2022: HK\$22,561,000); and
- (d) deferred tax provision of HK\$2,739,000 (six months ended 30 June 2022: HK\$5,551,000).
- (ii) The DPU of HK\$0.0745 (six months ended 30 June 2022: HK\$0.0875) is calculated based on Prosperity REIT's income available for distribution of HK\$113,771,000 (six months ended 30 June 2022: HK\$131,395,000) over 1,527,055,457 units (30 June 2022: 1,501,690,737 units), representing units in issue as at the end of the Reporting Period 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.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 Jun 2023 HK\$'000 (unaudited)	31 Dec 2022 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	13	9,703,000	9,801,000
Derivative financial instruments		26,510	32,185
<b>Total non-current assets</b>		<u>9,729,510</u>	<u>9,833,185</u>
<b>Current assets</b>			
Derivative financial instruments		31,546	37,991
Trade and other receivables	9	11,322	10,959
Bank balances and cash		98,390	100,366
<b>Total current assets</b>		<u>141,258</u>	<u>149,316</u>
<b>Total assets</b>		<u>9,870,768</u>	<u>9,982,501</u>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Borrowings	11	2,311,245	2,306,789
Deferred tax liabilities		253,513	250,774
<b>Total non-current liabilities, excluding net assets attributable to unitholders</b>		<u>2,564,758</u>	<u>2,557,563</u>
<b>Current liabilities</b>			
Trade and other payables	10	184,988	181,309
Amounts due to related companies		8,355	7,862
Provision for taxation		16,488	11,345
Manager's fee payable		12,173	12,343
Distribution payable		113,771	113,590
<b>Total current liabilities</b>		<u>335,775</u>	<u>326,449</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<u>2,900,533</u>	<u>2,884,012</u>
<b>Net assets attributable to unitholders</b>		<u>6,970,235</u>	<u>7,098,489</u>
<b>Units in issue ('000)</b>	12	<u>1,520,055</u>	<u>1,508,461</u>
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	14	<u>4.59</u>	<u>4.71</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 2023 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

### *Application of new and amendments to HKFRSs*

In the current interim period, the Group has applied the following new and 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 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

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

### *Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

### *Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies*

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023

(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 issued by the Securities and Futures Commission of Hong Kong.

The REIT Manager is of the opinion that, taking into account the headroom of the fair value of investment properties of HK\$9,703,000,000, presently available bank facilities and internal financial resources, 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>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Rental income	164,841	169,220
Car park income	15,547	14,808
	<hr/>	<hr/>
	180,388	184,028
Rental related income	37,007	34,540
	<hr/>	<hr/>
	217,395	218,568
	<hr/> <hr/>	<hr/> <hr/>

(4) Segment information:

As at 30 June 2023, Prosperity REIT owns seven (31 December 2022: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT’s segment information for the purpose of resource allocation and performance assessment.



## Six months ended 30 June 2023 (unaudited)

	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	48,219	36,817	15,811	31,284	23,258	17,328	7,671	180,388
Rental related income	13,410	9,183	2,510	4,637	3,973	2,075	1,219	37,007
Segment revenue in Hong Kong	61,629	46,000	18,321	35,921	27,231	19,403	8,890	217,395
Segment profit	47,821	37,272	13,361	27,092	20,722	14,894	6,655	167,817
Other income								517
Manager's fee								(24,378)
Trust and other expenses								(4,081)
Change in fair value of investment properties								(109,101)
Finance costs, net								(54,216)
Loss before taxation and transactions with unitholders								(23,442)

## 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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
Other income								511
Manager's fee								(24,865)
Trust and other expenses								(4,158)
Change in fair value of investment properties								(82,312)
Finance costs, net								36,988
Profit before taxation and transactions with unitholders								98,408

(5) Trust and other expenses:

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Audit fee	96	96
Bank charges	685	648
Legal and professional fees	306	406
Public relations and related expenses	40	31
Registrar fee	300	300
Trust administrative expenses	1,247	1,188
Trustee's fee	1,407	1,489
	<hr/>	<hr/>
	4,081	4,158
	<hr/> <hr/>	<hr/> <hr/>

(6) Finance costs, net:

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on bank borrowings	57,989	16,847
Interest rate swaps (income) / expense realised	(15,893)	9,648
	<hr/>	<hr/>
	42,096	26,495
Change in fair value of derivative financial instruments	12,120	(63,483)
	<hr/>	<hr/>
	54,216	(36,988)
	<hr/> <hr/>	<hr/> <hr/>

(7) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	12,334	14,109
Deferred tax	2,739	5,551
	<hr/>	<hr/>
	15,073	19,660
	<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, tax losses and derivative financial instruments using the estimated tax rate.

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

The basic (loss) / profit per unit is calculated by dividing the loss for the period, before transactions with unitholders of HK\$38,515,000 (six months ended 30 June 2022: profit of HK\$78,748,000) by the weighted average of 1,520,290,036 (six months ended 30 June 2022: 1,503,288,514) 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 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	4,935	5,906
Less: allowance for credit losses	(3,554)	(3,361)
	<hr/> 1,381	<hr/> 2,545
Deposits, prepayments and other receivables	9,941	8,414
	<hr/> 11,322	<hr/> 10,959
	<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 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	103	102
2 – 3 months	1,055	1,299
Over 3 months	223	1,144
	<hr/> 1,381	<hr/> 2,545
	<hr/> <hr/>	<hr/> <hr/>

(10) Trade and other payables:

	<i>30 Jun 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,690	2,304
Tenants' deposits		
- Outside parties	134,777	132,372
- Related parties	707	706
Rental received in advance		
- Outside parties	6,609	5,351
Other payables	40,205	40,576
	<u>184,988</u>	<u>181,309</u>

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

	<i>30 Jun 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	751	1,069
2 – 3 months	1,003	347
Over 3 months	936	888
	<u>2,690</u>	<u>2,304</u>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of the Reporting Period based on the lease terms amounted to HK\$82,705,000 as at 30 June 2023 (31 December 2022: HK\$78,479,000).

(11) Borrowings:

	<i>30 Jun 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(28,755)	(33,211)
	<hr/> 2,311,245	<hr/> 2,306,789
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	<hr/> 2,311,245	<hr/> 2,306,789
	<hr/> <hr/> <b>2,311,245</b>	<hr/> <hr/> <b>2,306,789</b>

(12) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2022	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	(15,533,000)	(44,828)
Balance as at 31 December 2022	<hr/> 1,508,461,255	<hr/> 3,238,270
Payment of Manager's base fee and variable fee through issuance of new units during the period	11,593,959	24,032
Balance as at 30 June 2023	<hr/> <hr/> <b>1,520,055,214</b>	<hr/> <hr/> <b>3,262,302</b>

(13) Investment properties:

	<i>30 Jun 2023</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2022</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	9,801,000	9,967,000
Additional expenditure	11,101	20,504
Change in fair value of investment properties	(109,101)	(186,504)
Fair value at the end of the period/year	<u>9,703,000</u>	<u>9,801,000</u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,520,055,214 units in issue as at 30 June 2023 (31 December 2022: 1,508,461,255 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\$194,517,000 (31 December 2022: HK\$177,133,000) and the Group's total assets less current liabilities amounted to HK\$9,534,993,000 (31 December 2022: HK\$9,656,052,000).
- (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, 17 August 2023

*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.*