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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 2023

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 2023 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2022 as follows:

Performance Highlights

<u>Distribution</u>	<u>Year ended 31 Dec 2023</u>	<u>Year ended 31 Dec 2022</u>	<u>Percentage change Increase/(Decrease)</u>
Income available for distribution	HK\$214.7 million	HK\$245.0 million	(12.4%)
Distribution per unit (“DPU”)	HK\$0.1409	HK\$0.1625	(13.3%)

<u>Operation data</u>	<u>Year ended 31 Dec 2023</u>	<u>Year ended 31 Dec 2022</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$437.3 million	HK\$434.0 million	0.8%
Net property income	HK\$336.4 million	HK\$337.9 million	(0.4%)
Occupancy rate (as at 31 Dec)	95.9%	96.3%	(0.4%) ²
Tenant retention rate	73.1%	76.1%	(3.0%) ²
Cost-to-revenue ratio	23.1%	22.1%	1.0% ²

<u>Key financial figures</u>	<u>As at 31 Dec 2023</u>	<u>As at 31 Dec 2022</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$4.56	HK\$4.71	(3.2%)
Property valuation	HK\$9,703 million	HK\$9,801 million	(1.0%)
Gearing ratio ¹	24.2%	23.4%	0.8% 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 2023. 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

Despite the tepid economic recovery in Hong Kong, Prosperity REIT registered stable top-line revenue of HK\$437.3 million and net property income of HK\$336.4 million for the Reporting Year. Distributable income and distribution per unit declined mainly due to the rise in finance cost amid interest rate hike environment. Property valuation adjusted downward mildly by 1.0% year-on-year (“YoY”) to HK\$9,703 million.

Our Unitholders will receive a DPU of HK\$0.0664 for the second half of the year, representing a total DPU of HK\$0.1409 for the year ended 31 December 2023.

Market Review

Global economies have continued to confront heightened interest rates, energy prices, inflation, geopolitical conflicts and trade tensions in 2023.

In the US, following 525bps of rate hikes by the Federal Reserve since 2022, policy interest rate has been maintained at a range of 5.25% - 5.50% for four consecutive meetings. GDP grew by 2.5% annually in 2023 alongside gradually easing inflation.

In Mainland China, annual economic growth of 5.2% was recorded in 2023 due to the rebound in local consumer spending. Fiscal and monetary stimuli have been stepped up to boost private sector confidence and stabilize property market.

Hong Kong's 2023 annual GDP growth of 3.2% was driven by the uptick of domestic demand and inbound tourism after a return to normalcy. However, the elevated finance cost, lacklustre property market and subdued external demand weighed on economic activities.

Operations Review

During the year, local office rents and occupancy rates were pressured by the prevailing high business operating cost, economic uncertainty, hybrid work norm and new office supply. Nevertheless, our diversified portfolio of premium quality properties located in decentralized areas has stayed resilient.

With increased economic momentum after the reopening of Hong Kong, leasing activities and sentiment improved. Our portfolio rent level and occupancy rate were stable in 2023. Negative portfolio rental reversion narrowed in the second half compared to first half of the year. Although our Grade A office properties continue to face headwinds, Prosperity REIT has a well-balanced portfolio with commercial and industrial properties.

Sustainability

As a responsible corporate citizen, we are committed in forging ahead on our sustainability journey to create positive impacts on the environment and for our stakeholders. For the Reporting Year, we have adopted the recommendations of the Task Force on Climate-related Financial Disclosures (“**TCFD**”) in our Sustainability Report. Being the first Hong Kong REIT to achieve 100% sustainability-linked financing, we have ventured further by increasing our proportion of sustainability-linked interest rate swaps.

For the second consecutive year, we have attained the highest 5-Star rating, “A” ranking for public disclosure and Green Star accreditation in the 2023 Global Real Estate Sustainability Benchmark (“**GRESB**”) assessment. Affirming our commitment to the pinnacle of green building and wellness standards, The Metropolis Tower and Prosperity Millennia Plaza have both achieved “Platinum” ratings under the BEAM Plus Comprehensive Scheme and the WELL Certification respectively. Our innovative and sustainable facility management practices have also garnered awards from Royal Institution of Chartered Surveyors (“**RICS**”) and Green Building Award 2023.

Outlook

Given the lingering effects of high interest rates and geopolitical tensions, the World Bank has projected global economic growth to soften to 2.4% in 2024. Meanwhile, Hong Kong’s GDP is forecasted to grow in a range of 2.5% to 3.5% in 2024. The pace of recovery in Hong Kong depends on the progress of Mainland China’s economy and the movement of US Fed interest rate. The upcoming US presidential election also injects more uncertainty into the global economic outlook.

Although 2024 may be another challenging year, Prosperity REIT is well-poised to benefit from its unique portfolio close to major transportation link and equipped with green and smart building facilities. We will continue deploying prudent and nimble leasing strategies to navigate through different market conditions.

Acknowledgements

I would like to convey my deepest appreciation to all our staff, tenants, service providers and business partners, who have all played pivotal roles towards helping us foster strength in stability to ride out uncertain times.

In particular, I am grateful to my fellow Board members and the management team for their unyielding dedication and invaluable efforts.

Last but not least, I would like to conclude by acknowledging and thanking all our Unitholders. Your steadfast support for and faith in Prosperity REIT are important cornerstones for our sustainable growth.

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

Hong Kong, 15 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 31 December 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 31 December 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 31 December 2023, 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	2,701	95.6%
Prosperity Millennia Plaza	North Point	217,955	43	2,055	93.2%
9 Chong Yip Street	Kwun Tong	136,595	68	940	97.8%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,698	96.5%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,106	92.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	850	99.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	353	100.0%
Total		1,275,153	498	9,703	95.9%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 95.9% as at 31 December 2023, 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 23.1%.

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 can 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 and Prosperity Millennia Plaza.

The Metropolis Tower

The renovation of passenger lift lobby and corridor on typical floors at The Metropolis Tower continued. This facelifting has incorporated prestigious design with a warm and hospitable indoor environment for our tenants. Moreover, considering higher running and maintenance costs of the aged chiller sets for the MVAC system, we have replaced one out of a total of three chiller sets by a more energy-efficient model in order to upkeep a reliable air conditioning service for the property and for better energy efficiency.

Prosperity Millennia Plaza

The renovation of passenger lift lobby and corridor on typical floors at Prosperity Millennia Plaza continued. This facelifting 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.

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	95,756	28,614	124,370	96,227
Prosperity Millennia Plaza	73,053	18,039	91,092	72,736
9 Chong Yip Street	32,094	5,088	37,182	27,129
Commercial				
Prosperity Place	63,703	9,533	73,236	55,937
Industrial/Office				
Trendy Centre	46,326	8,186	54,512	41,014
Prosperity Center (portion)	34,835	4,198	39,033	29,926
Industrial				
New Treasure Centre (portion)	15,457	2,432	17,889	13,413
Total	361,224	76,090	437,314	336,382

Revenue

During the Reporting Year, revenue increased to HK\$437.3 million, being HK\$3.3 million or 0.8% higher than that of 2022. The increase was mainly due to the increase in rental related income from HK\$70.0 million to HK\$76.1 million, generated from the increase in management fee and air-conditioning income.

Net Property Income

For the Reporting Year, net property income was HK\$336.4 million, being HK\$1.5 million or 0.4% lower than that of 2022. The cost-to-revenue ratio was 23.1%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$214.7 million, representing a total DPU of HK\$0.1409. 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\$9.0 million (equivalent to HK\$0.0059 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 2023 to 31 December 2023 is HK\$100.9 million, equivalent to a DPU of HK\$0.0664. The interim DPU from 1 January 2023 to 30 June 2023 was HK\$0.0745. The total DPU for the Reporting Year is HK\$0.1409, which represents a distribution yield of 10.1%³. The total DPU decreased by 13.3% year-on-year.

The distribution for the half year from 1 July 2023 to 31 December 2023 will be paid on 17 April 2024 (Wednesday).

Liquidity and Financing

As at 31 December 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) 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, which will mature in November 2025 and November 2027 respectively.

³ Based on Prosperity REIT's closing unit price of HK\$1.39 as at 29 December 2023.

As at 31 December 2023, total facilities drawn was HK\$2,340 million and the revolving credit facilities of HK\$30 million were drawn. 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.

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 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 facilities origination fees, as a percentage of Prosperity REIT’s total assets was 24.2% as at 31 December 2023 (31 December 2022: 23.4%), whereas the total liabilities of Prosperity REIT as a percentage of Prosperity REIT’s total assets was 29.8% as at 31 December 2023 (31 December 2022: 28.9%).

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\$121.0 million, based on a professional valuation performed by an independent qualified external valuer, Knight Frank Petty Limited (2022: Jones Lang LaSalle Limited). The movements of fair values are tabulated below:

	31 December 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Fair value at the beginning of the year	9,801,000	9,967,000
Additional expenditure	22,951	20,504
Change in fair value of investment properties	(120,951)	(186,504)
Fair value at the end of the year	9,703,000	9,801,000

Charges on Assets

As at 31 December 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 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 24,981,000 units on behalf of Prosperity REIT on the Stock Exchange during the Reporting Year for an aggregate consideration of approximately HK\$37.9 million (excluding expenses and dividend received). Details of units bought back are summarised as follows:

Month of bought back	Number of units bought back	Purchase price per unit		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
<u>2023</u>				
August	15,885,000	1.63	1.49	24,548
September	9,096,000	1.53	1.41	13,339
	<u>24,981,000</u>			<u>37,887</u>

All units bought back were cancelled prior to the Reporting Year end.

Save as disclosed above, 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 5 April 2024 (Friday) to 8 April 2024 (Monday), 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 3 April 2024 (Wednesday). The payment date of the final distribution will be on 17 April 2024 (Wednesday).

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 2023.

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 2024 (Tuesday).

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on 29 May 2024 (Wednesday). 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 2023

	<i>Notes</i>	<i>2023</i> <i>HK\$'000</i>	<i>2022</i> <i>HK\$'000</i>
Revenue	3	437,314	434,007
Property management fees		(10,011)	(10,080)
Property operating expenses		(90,921)	(86,022)
Total property operating expenses		(100,932)	(96,102)
Net property income		336,382	337,905
Other income		1,059	806
Manager's fee		(49,000)	(49,691)
Trust and other expenses	5	(7,283)	(7,956)
Change in fair value of investment properties		(120,951)	(186,504)
Finance costs, net	6	(138,725)	26,582
Profit before taxation and transactions with unitholders		21,482	121,142
Taxation	7	(27,155)	(46,251)
(Loss)/profit for the year, before transactions with unitholders		(5,673)	74,891
Distribution to unitholders		(214,662)	(244,985)
Loss for the year, after transactions with unitholders		(220,335)	(170,094)
Total comprehensive expense for the year, after transactions with unitholders		(220,335)	(170,094)
Income available for distribution to unitholders		214,662	244,985
Basic (loss)/earnings per unit (HK\$)	8	(0.004)	0.050

Distribution Statement

For the year ended 31 December 2023

	2023 HK\$'000	2022 HK\$'000
(Loss)/profit for the year, before transactions with unitholders	(5,673)	74,891
Adjustments:		
Manager's fee	47,984	48,629
Change in fair value of investment properties	120,951	186,504
Change in fair value of derivative financial instruments	40,059	(92,745)
Finance costs	8,985	8,040
Deferred tax	2,356	19,666
	<hr/>	<hr/>
Income available for distribution (note (i))	214,662	244,985
Distributions to unitholders:		
HK\$0.0745 (2022: HK\$0.0875) per unit for the six months ended 30 June (note (ii))	113,771	131,395
HK\$0.0664 (2022: HK\$0.0750) per unit for the six months ended 31 December (note (iii))	100,891	113,590
	<hr/>	<hr/>
	214,662	244,985
	<hr/>	<hr/>
Total distribution per unit (HK\$)	0.1409	0.1625
	<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\$47,984,000 (2022: HK\$48,629,000) out of the total manager's fee of HK\$49,000,000 (2022: HK\$49,691,000) (the differences of HK\$1,016,000 (2022: HK\$1,062,000) are paid in cash);

- (b) decrease in fair value of investment properties of HK\$120,951,000 (2022: HK\$186,504,000) and decrease in fair value of derivative financial instruments of HK\$40,059,000 (2022: increase in fair value of HK\$92,745,000);
- (c) non-cash finance costs of HK\$8,985,000 (2022: HK\$8,040,000), are derived from the negative amount of finance costs of HK\$138,725,000 (2022: positive amount of HK\$26,582,000), less decrease in fair value of derivative financial instruments of HK\$40,059,000 (2022: adding back increase in fair value of HK\$92,745,000) and less the cash finance costs of HK\$89,681,000 (2022: HK\$58,123,000); and
- (d) deferred tax provision of HK\$2,356,000 (2022: HK\$19,666,000).
- (ii) The distribution per unit of HK\$0.0745 for the six months ended 30 June 2023 (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 30 June 2023 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. The distribution was paid to unitholders on 14 September 2023.
- (iii) The distribution per unit of HK\$0.0664 for the six months ended 31 December 2023 (six months ended 31 December 2022: HK\$0.0750) is calculated based on Prosperity REIT's income available for distribution of HK\$100,891,000 (six months ended 31 December 2022: HK\$113,590,000) over 1,519,923,270 units (31 December 2022: 1,513,978,943 units), representing units in issue as at 31 December 2023 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.

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	9,703,000	9,801,000
Derivative financial instruments		12,653	32,185
Total non-current assets		9,715,653	9,833,185
Current assets			
Derivative financial instruments		20,159	37,991
Trade and other receivables	9	11,564	10,959
Bank balances and cash		61,013	100,366
Total current assets		92,736	149,316
Total assets		9,808,389	9,982,501
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		2,681	-
Bank borrowings	11	2,315,774	2,306,789
Deferred tax liabilities		253,130	250,774
Total non-current liabilities, excluding net assets attributable to unitholders		2,571,585	2,557,563
Current liabilities			
Derivative financial instruments		14	-
Trade and other payables	10	179,296	181,309
Amounts due to related companies		12,934	7,862
Bank borrowings	11	30,000	-
Provision for taxation		12,628	11,345
Manager's fee payable		12,335	12,343
Distribution payable		100,891	113,590
Total current liabilities		348,098	326,449
Total liabilities, excluding net assets attributable to unitholders		2,919,683	2,884,012
Net assets attributable to unitholders		6,888,706	7,098,489
Units in issue ('000)	12	1,510,529	1,508,461
Net asset value per unit (HK\$) attributable to unitholders	14	4.56	4.71

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 New and Amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
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
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

The Group has applied the amendments for the first time in the current year. 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 year had no material impact on the consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 2.

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ *Effective for annual periods beginning on or after a date to be determined.*

² *Effective for annual periods beginning on or after 1 January 2024.*

³ *Effective for annual periods beginning on or after 1 January 2025.*

Except for the amendments to HKFRSs mentioned below, the REIT Manager anticipates that the application of all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

- 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.
- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an 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.

In addition, the 2022 Amendments 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 an 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 applying 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 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

The REIT Manager anticipates that the application of remaining amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

- (2) Basis of preparation of consolidated financial statements and material accounting policy information:

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 leasing transactions that are within the scope of HKFRS 16 *Leases*.

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 of HK\$9,703,000,000, 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 Year. Hence, the consolidated financial statements have been prepared on a going concern basis.

The material accounting policy information is 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.

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>2023</i> <i>HK\$'000</i>	<i>2022</i> <i>HK\$'000</i>
Gross rental from investment properties		
Rental income	329,882	333,425
Car park income	31,342	30,571
	<u>361,224</u>	<u>363,996</u>
Rental related income	76,090	70,011
	<u>437,314</u>	<u>434,007</u>

(4) Segment information:

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

For the year ended 31 December 2023

	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	95,756	73,053	32,094	63,703	46,326	34,835	15,457	361,224
Rental related income	28,614	18,039	5,088	9,533	8,186	4,198	2,432	76,090
Segment revenue in Hong Kong	124,370	91,092	37,182	73,236	54,512	39,033	17,889	437,314
Segment profit	96,227	72,736	27,129	55,937	41,014	29,926	13,413	336,382
Other income								1,059
Manager's fee								(49,000)
Trust and other expenses								(7,283)
Change in fair value of investment properties								(120,951)
Finance costs, net								(138,725)
Profit before taxation and transactions with unitholders								21,482

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

(5) Trust and other expenses:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Auditor's remuneration		
Audit fee	55	55
Non-audit fees	116	116
Bank charges	1,325	1,298
Legal and professional fees	259	812
Public relations-related expenses	283	208
Registrar fee	600	600
Trust administrative expenses	1,841	1,891
Trustee's fee	2,804	2,976
	<u>7,283</u>	<u>7,956</u>

(6) Finance costs, net:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest expense on bank borrowings	133,827	60,156
Interest rate swaps (income)/expenses realised	(35,931)	6,007
Interest expense on unsecured revolving loan	770	-
	<u>98,666</u>	<u>66,163</u>
Change in fair value of derivative financial instruments	40,059	(92,745)
	<u>138,725</u>	<u>(26,582)</u>

(7) Taxation:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax	25,077	26,939
Over-provision in prior year	(278)	(354)
Deferred tax	2,356	19,666
	<u>27,155</u>	<u>46,251</u>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2022: 16.5%) for the year ended 31 December 2023.

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 loss (2022: earnings) per unit is calculated by dividing the loss for the year, before transactions with unitholders of HK\$5,673,000 (2022: profit of HK\$74,891,000) by the weighted average of 1,519,399,356 (2022: 1,505,738,251) 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>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	5,840	5,906
Less: allowance for credit losses	(3,731)	(3,361)
	<u>2,109</u>	<u>2,545</u>
Deposit and prepayments and other receivables	9,455	8,414
	<u>11,564</u>	<u>10,959</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>2023</i>	<i>2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	218	102
2 – 3 months	1,540	1,299
Over 3 months	351	1,144
	<u>2,109</u>	<u>2,545</u>

(10) Trade and other payables:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,937	2,304
Tenants' deposits		
- Outside parties	132,041	132,372
- Related parties	713	706
Rental received in advance		
- Outside parties	4,940	5,351
Other payables	39,665	40,576
	<u>179,296</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 Year is as follows:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	609	1,069
2 – 3 months	254	347
Over 3 months	1,074	888
	<u>1,937</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 Reporting Year based on the lease terms amounted to HK\$77,529,000 (2022: HK\$78,479,000).

(11) Bank borrowings:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(24,226)	(33,211)
	<u>2,315,774</u>	<u>2,306,789</u>
Unsecured revolving loan	30,000	-
	<u>2,345,774</u>	<u>2,306,789</u>
Carrying amount repayable:		
Within one year	30,000	-
Within a period of more than one year but not exceeding five years	<u>2,315,774</u>	<u>2,306,789</u>
	<u>2,345,774</u>	<u>2,306,789</u>

(12) Units in issue:

	Number of units	<i>HK\$'000</i>
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	<u>(15,533,000)</u>	<u>(44,828)</u>
Balance as at 31 December 2022	1,508,461,255	3,238,270
Payment of manager's base fee and variable fee through issuance of new units during the year	27,048,968	47,980
Units bought back and cancelled	<u>(24,981,000)</u>	<u>(37,428)</u>
Balance as at 31 December 2023	<u>1,510,529,223</u>	<u>3,248,822</u>

(13) Investment properties:

	<i>31 Dec 2023</i>	<i>31 Dec 2022</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value		
At the beginning of the year	9,801,000	9,967,000
Additional expenditure	22,951	20,504
Change in fair value of investment properties	<u>(120,951)</u>	<u>(186,504)</u>
At the end of the year	<u><u>9,703,000</u></u>	<u><u>9,801,000</u></u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,510,529,223 units in issue as at 31 December 2023 (1,508,461,255 units in issue as at 31 December 2022).
- (15) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$255,362,000 (2022: HK\$177,133,000) and the Group's total assets less current liabilities amounted to HK\$9,460,291,000 (2022: HK\$9,656,052,000). 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.