



Stock Code 股份代號: 808

Interim Report 2015 中期報告

# Harvesting The Success

豐盛成果

## **About PROSPERITY REIT**

Prosperity Real Estate Investment Trust (“Prosperity REIT”) is the first private sector real estate investment trust (“REIT”) listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of eight high-quality office, commercial, industrial/office and industrial properties in the decentralized business districts of Hong Kong, with a total gross rentable area of about 1.35 million sq. ft..

Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited (the “REIT Manager”).

## **About The REIT Manager**

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited (“ARA”). ARA is an Asian real estate fund management company focused on the management of REITs and private real estate funds.

The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT’s business strategies.

## **Our Mission**

The REIT Manager is staffed with experienced professionals who are dedicated to managing the assets of Prosperity REIT for the benefit of the unitholders through proactive asset management and multi-dimensional growth strategies.

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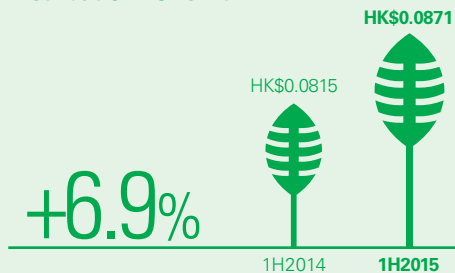
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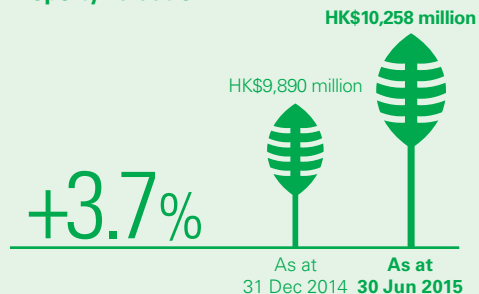
To demonstrate our remarkable results, we use flower petals with bright and rich color tone as the cover, going with the design of the annual report. The vivid and multicolored petals highlight the flourishing business of Prosperity REIT and its success in achieving a significant milestone. Meanwhile, the blossoming flower illustrates our delight to share the joy of harvest with unitholders.

# Performance Highlights

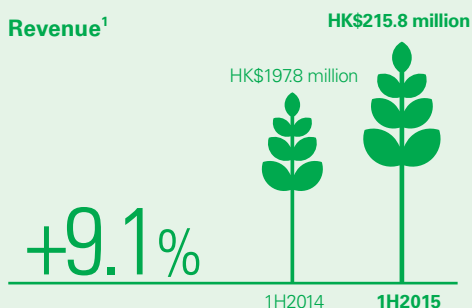
## Distribution Per Unit<sup>1</sup>



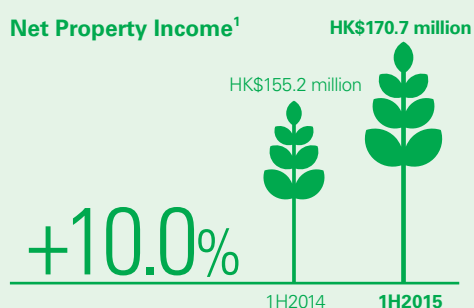
## Property Valuation



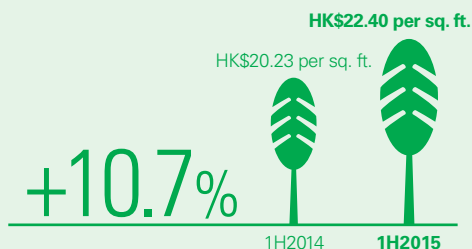
## Revenue<sup>1</sup>



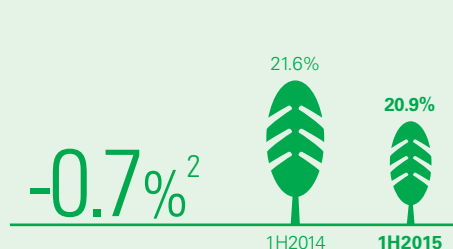
## Net Property Income<sup>1</sup>



## Average Effective Unit Rent<sup>1</sup>



## Cost-to-revenue Ratio<sup>1</sup>



Notes:

<sup>1</sup> For the six months ended 30 June

<sup>2</sup> Absolute change



## Performance Highlights

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)	Percentage change Increase/ (Decrease)
Distribution per unit ("DPU")	<b>HK\$0.0871</b>	HK\$0.0815	6.9%

## Key Financial Figures

	As at 30 June 2015 (unaudited)	As at 31 December 2014 (audited)	Percentage change Increase/ (Decrease)
Net asset value per unit	<b>HK\$4.91</b>	HK\$4.70	4.5%
Property valuation	<b>HK\$10,258 million</b>	HK\$9,890 million	3.7%
Gearing ratio <sup>1</sup>	<b>27.6%</b>	28.6%	(1.0%) <sup>2</sup>

## Operation Data

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)	Percentage change Increase/ (Decrease)
Revenue	<b>HK\$215.8 million</b>	HK\$197.8 million	9.1%
Net property income	<b>HK\$170.7 million</b>	HK\$155.2 million	10.0%
Average effective unit rent	<b>HK\$22.40 per sq. ft.</b>	HK\$20.23 per sq. ft.	10.7%
Occupancy rate (as at 30 June)	<b>98.5%</b>	97.8%	0.7% <sup>2</sup>
Rental reversion rate	<b>16.8%</b>	28.6%	(11.8%) <sup>2</sup>
Cost-to-revenue ratio	<b>20.9%</b>	21.6%	(0.7%) <sup>2</sup>

Notes:

<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 2015, Prosperity REIT owned a diverse portfolio of eight properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. As at 30 June 2015, the total gross rentable area was 1,352,174 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2015, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,120	98.4%
Prosperity Millennia Plaza	North Point	217,955	43	1,936	99.1%
9 Chong Yip Street	Kwun Tong	136,595	68	1,086	100.0%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	494	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,503	97.2%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	984	98.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	832	97.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	303	98.7%
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>10,258</b>	<b>98.5%</b>

## Management Discussion and Analysis

During the six months ended 30 June 2015 (the "Reporting Period"), global economies continued to face challenges against the backdrop of the Greece debt problem and slowdown in Mainland China's economic growth. In U.S., Federal Reserve (FED) provided guiding signal of the initial rate increase might be possible within three to six months after the Federal Open Market Committee (FOMC) meeting held in June.

Nevertheless, Hong Kong's leasing market continued to grow with PRC securities and investment firms taking up office spaces in Central due to the broadening of investment limits of the Shanghai-Hong Kong Stock Connect and the optimistic view on the potential Shenzhen-Hong Kong Stock Connect. In June, vacancy rates in Central reached 1.7%, dropping below 2.0% for the first time since November 2008.

In Kowloon East, the market is predicted to be stable in year 2015. Although most future office supply will take place in Kowloon East, it will be partly absorbed by the demand from end users and tenants which are migrating from Core Business District for cost-saving options. Notwithstanding a competitive market condition with increasing office supply, Prosperity REIT achieved a rental reversion rate of 16.8%, complemented with a stable occupancy rate of 98.5% during the Reporting Period. The average effective unit rent of Prosperity REIT's portfolio also recorded a solid growth of 10.7% to HK\$22.40 per sq. ft. during the Reporting Period. This resilient performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services, which enabled us to stand out from keen competitions and attract quality tenants.

Meanwhile, the REIT Manager has implemented effective measures to increase its operational efficiency, enabling Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 20.9% for the Reporting Period.

As at 30 June 2015, Prosperity REIT's gearing ratio remained at a healthy level of 27.6% (31 December 2014: 28.6%), providing us with a strong balance sheet to take advantage of future growth opportunities.

### 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.

## Management Discussion and Analysis

### Asset Enhancement

Asset enhancement has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties will also be a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Period, a number of asset enhancement works were carried out at 9 Chong Yip Street, Prosperity Millennia Plaza and Trendy Centre.

#### 9 Chong Yip Street

9 Chong Yip Street is located in the Kwun Tong district of Kowloon East, which is a maturing decentralized business district with many new high-specifications office developments.

Following the successful opening of the living green roof garden at Prosperity Place and The Metropolis Tower in 2009 and 2010 respectively, a roof garden was set up at 9 Chong Yip Street in order to provide green building facilities for tenants' enjoyment.

#### Prosperity Millennia Plaza and Trendy Centre

Prosperity Millennia Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices.

Trendy Centre is located on Castle Peak Road in Lai Chi Kok, the heart of Kowloon's garment and fashion wholesaling district.

In view of the higher electricity tariffs and operating cost of the air conditioning system, we have replaced one of the existing chiller sets in these two properties by a more energy-efficient model, enabling about 15% in energy cost savings for air conditioning provision.

### Outlook

The global economies are in divergence direction of growth. The U.S. economy remains in a stable growth momentum supported by the positive signs on domestic demands and job market. The FED has managed market expectation on the first interest rate rise within this year. The euro zone is facing financial uncertainty caused by Greece and general weak economic growth. In China, the economy continues to slow down, despite the government imposing various monetary policies to stabilize the economy.



## Management Discussion and Analysis

As Hong Kong continues to face the headwinds from the external environment, the economic growth is under pressure. However, in the first half of 2015, Central office leasing market showed growth momentum on the back of limited office supply, strong demands and low vacancies. With the new high specifications office supply launching in Kowloon East area, the government infrastructure planning and the capital investment made by multinational companies and investment funds, investors remain confident in Kowloon East transforming into the second central business district of Hong Kong (“CBD2”) in the long run. Kowloon East district has evolved to be a relocation option for corporates from core business district.

Prosperity REIT, being a long term player in Kowloon East office market, is well-positioned to gain further benefits from Kowloon East transformation. With the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, we will continue to implement effective asset management strategies that successfully drive rental income. Given our refinancing completed last year, there is no major refinancing need in the near future. With all these advantages, Prosperity REIT’s unitholders can confidently expect stable and sustainable returns to continue in the foreseeable future.

## Management Discussion and Analysis

### 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 HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	52,713	10,042	62,755	50,410
Prosperity Millennia Plaza	36,221	6,660	42,881	35,310
9 Chong Yip Street	16,903*	1,940	18,843	15,218
<b>Commercial</b>				
Harbourfront Landmark (portion)	10,686	3,150	13,836	11,375
Prosperity Place	29,056	176	29,232	21,207
<b>Industrial/Office</b>				
Trendy Centre	19,932	3,288	23,220	18,012
Prosperity Center (portion)	16,213	1,567	17,780	13,698
<b>Industrial</b>				
New Treasure Centre (portion)	6,379	876	7,255	5,457
<b>Total</b>	<b>188,103</b>	<b>27,699</b>	<b>215,802</b>	<b>170,687</b>

\* As the rental income for 9 Chong Yip Street (being the aggregate of all rental, licence fees and other income from the leasing or licensing of 9 Chong Yip Street, and income from the carpark including rental, licence fees and hourly parking fees) for the Reporting Period in the sum of HK\$16,903,000 is greater than the agreed rental income support for the relevant six-month period, no rental support payment is payable by Cactus Holdings Limited to Prosperity REIT under the deed of rental support dated 22 January 2014 for the Reporting Period. For details, please refer to the announcement of Prosperity REIT dated 13 August 2015.

### Revenue

During the Reporting Period, revenue improved to HK\$215.8 million, being HK\$18.0 million or 9.1% higher than the last corresponding half year.

The revenue comprised HK\$188.1 million of rental and car park income, plus HK\$27.7 million of rental related income. Rental and car park income was HK\$16.9 million or 9.9% higher than the last corresponding half year.

### Net Property Income

For the Reporting Period, the net property income was HK\$170.7 million, exceeding that of the last corresponding half year by HK\$15.5 million or 10.0%. The growth was mainly attributable to the rental reversion rate of 16.8% for the entire portfolio and the outstanding performance in both occupancy rate and rental income in 9 Chong Yip Street acquired in 2014. The cost-to-revenue ratio was 20.9%.

### Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$124.8 million, representing a DPU of HK\$0.0871. This represents an annualized distribution yield of 6.3%<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 constituting Prosperity REIT (the "Trust Deed")) including a finance cost of HK\$6.3 million (equivalent to HK\$0.0044 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.

Note:

<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$2.78 as at 30 June 2015.

## Management Discussion and Analysis

### Liquidity and Financing

As at 30 June 2015, Prosperity REIT had facilities in aggregate of HK\$3,284 million, comprising:

- (i) a term loan and revolving credit facility of up to an aggregate principal amount of HK\$2,500 million (the "HK\$2,500 Million Facilities") comprising a HK\$2,070 million secured term loan facility and a HK\$430 million secured revolving credit facility, which bear interest at a margin of 1.35% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 14 November 2014, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity;
- (ii) a HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014 (the "HK\$404 Million Facility"); and
- (iii) a HK\$380 million unsecured term loan, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014 (the "HK\$380 Million Facility").

In relation to the HK\$2,500 Million Facilities, the term loan facility of HK\$2,070 million was fully drawn on 28 November 2014 for the purposes of refinancing the facilities due to expire in August 2015. None of the revolving credit facility was drawn as at 30 June 2015.

The HK\$404 Million Facility and the HK\$380 Million Facility were fully drawn on 22 January 2014 to partly finance the acquisition of 9 Chong Yip Street.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2015, the interest costs for approximately 55% (31 December 2014: 55%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 27.6% as at 30 June 2015, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 32.2% as at 30 June 2015.

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.

## Management Discussion and Analysis

### Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$359.7 million, based on a professional valuation performed by an independent valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	<b>30 June 2015 HK\$'000 (unaudited)</b>	<b>31 December 2014 HK\$'000 (audited)</b>
Fair value at beginning of the period/year	<b>9,890,000</b>	8,518,000
Additional expenditure	<b>8,308</b>	25,845
Acquisition	–	1,014,054
Change in fair value of investment properties	<b>359,692</b>	332,101
Fair value at the end of the period/year	<b>10,258,000</b>	9,890,000

### Charges on Assets

As at 30 June 2015, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,462 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and certain subsidiaries have provided guarantees for the HK\$2,500 Million Facilities, the HK\$404 Million and HK\$380 Million Facilities.

### Employees

Prosperity REIT is externally managed by the REIT Manager and does not employ any staff.

## 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. During the Reporting Period, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

### Board of Directors of the REIT Manager

The Board of Directors of the REIT Manager (the “Board”) is responsible for the overall governance of the REIT Manager including establishing goals for the management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control which covers business risk management processes.

The Board is collectively responsible for the management of the business and affairs of the REIT Manager. The Board exercises its general powers within the limits defined by the articles of association of the REIT Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the REIT Manager. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors (“INEDs”). All directors of the REIT Manager (the “Directors”) (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT Manager.

The positions of Chairman of the Board and Chief Executive Officer (“CEO”) are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Dr. Chiu Kwok Hung, Justin who is a Non-executive Director. He is responsible for the overall leadership of the Board and the REIT Manager. The CEO is Ms. Wong Lai Hung, Mavis who is an Executive Director and a Responsible Officer of the REIT Manager. She has overall responsibility for the day-to-day operations of the REIT Manager and supervises the REIT Manager’s management team to ensure that Prosperity REIT is operated in accordance with the stated strategy, policies and regulations.



### Internal Controls

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems and operational functions and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee. The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the internal control systems and compliance procedures.

The Board, through the Audit Committee, conducts reviews on the effectiveness of internal control systems of Prosperity REIT, which cover all material controls including financial, operational and compliance controls, risk management functions, the adequacy of resources, qualifications and experience of the REIT Manager's staff who carry out Prosperity REIT's accounting and financial reporting function, and their training programmes.

### Audit Committee

The REIT Manager has established an Audit Committee to assist the Board in reviewing the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommending for the appointment and reviewing the relationship with the external auditor of Prosperity REIT periodically, as well as reviewing and supervising the internal control procedures and risk management systems.

The Audit Committee members are appointed by the Board from among the Directors. The Audit Committee presently comprises three INEDs, namely, Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam. Dr. Lan Hong Tsung, David is the chairman of the Audit Committee.

### Disclosures Committee

The REIT Manager has set up a Disclosures Committee to assist the Board in reviewing matters relating to the disclosure of information to unitholders and public announcements. The Disclosures Committee also works with the management team of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee members are appointed by the Board from among the Directors. The Disclosures Committee presently consists of three members, namely, Dr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, and Dr. Lan Hong Tsung, David, an INED. Ms. Wong Lai Hung, Mavis is the chairman of the Disclosures Committee.

## Corporate Governance

### Designated (Finance) Committee

The REIT Manager has set up a Designated (Finance) Committee to assist the Board in reviewing matters relating to hedging strategies, financing and re-financing arrangements and transactions involving derivative instruments for hedging purposes.

The Designated (Finance) Committee presently comprises, among others, four Directors, namely, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, Dr. Lan Hong Tsung, David and Mr. Wong Kwai Lam, INEDs. Ms. Wong Lai Hung, Mavis is the convener of the Designated (Finance) Committee.

### Code Governing Dealings in Units by Directors, or the REIT Manager and Interests of the Significant Unitholders

The REIT Manager has adopted a code governing dealings in the securities of Prosperity REIT by the Directors or the REIT Manager (collectively, the "Management Persons") (the "Units Dealing Code"), on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK"). The Units Dealing Code has been extended to apply to the executive officers and other employees of the REIT Manager.

Specific enquiry has been made with the Management Persons, executive officers and other employees of the REIT Manager, who confirmed that they have complied with the required standard set out in the Units Dealing Code during the Reporting Period.

The REIT Manager has also adopted procedures for monitoring disclosure of interests by the REIT Manager, the Directors and the chief executive of the REIT Manager. The provisions of Part XV of the Securities and Futures Ordinance (the "SFO") shall be deemed to apply to the REIT Manager, the Directors, the chief executive of the REIT Manager and each unitholder and all persons claiming through or under him/her.

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the SEHK and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the "Trustee"). The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT, which is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

### Change of Directors' Information

Subsequent to publication of the Annual Report 2014 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Dr. Chiu Kwok Hung, Justin was appointed as an Executive Director and a Member of Executive Committee of CK Hutchison Holdings Limited (a company listed in Hong Kong on 18 March 2015) on 9 January 2015 and 26 February 2015 respectively. He resigned as an Executive Director and ceased to be a Member of Executive Committee of Cheung Kong (Holdings) Limited (whose listing status was replaced by CK Hutchison Holdings Limited on 18 March 2015) and CK Hutchison Holdings Limited on 3 June 2015. Dr. Chiu has also been appointed as an Executive Director and a Member of Executive Committee of Cheung Kong Property Holdings Limited (a company listed in Hong Kong on 3 June 2015) on 26 February 2015 and 3 June 2015 respectively.
2. Mr. Ma Lai Chee, Gerald ceased to be an Alternate Director to Mr. Ip Tak Chuen, Edmond, a Director of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT which is dual-listed in Hong Kong and Singapore) who resigned on 1 June 2015, and was appointed as a Non-Executive Director and a Member of the Designated Committee of ARA Asset Management (Fortune) Limited on the same day. Mr. Ma was appointed as a Member of the Executive Committee and General Manager, Corporate Business Development Department of CK Hutchison Holdings Limited on 26 February 2015 and 18 March 2015 respectively. He ceased to be a Member of the Executive Committee and General Manager, Corporate Business Development Department of CK Hutchison Holdings Limited and Cheung Kong (Holdings) Limited on 3 June 2015; and was appointed as a Member of the Executive Committee and General Manager, Corporate Business Development Department of Cheung Kong Property Holdings Limited on 3 June 2015.

### Review of Interim Report

The interim report of Prosperity REIT for the Reporting Period has been reviewed by the Audit Committee and the Disclosures Committee. The interim financial statements have also been reviewed 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.

## Corporate Governance

### Closure of Register of Unitholders

The register of unitholders will be closed from Thursday, 27 August 2015 to Tuesday, 1 September 2015, 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 Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 26 August 2015. The payment date of interim distribution will be on Monday, 7 September 2015.

## Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Prosperity REIT and its connected persons as defined in paragraph 8.1 of the REIT Code during the Reporting Period:

### Connected Party Transactions — Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Period:

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the six months ended 30 June 2015 HK\$	Rental deposit received as at 30 June 2015 HK\$
Goodwell Property Management Limited	Note 1	Tenancy of property of Prosperity REIT <sup>Note 3</sup>	761,694	404,415
Hutchison Telephone Company Limited	Note 2	Licence of property of Prosperity REIT <sup>Note 4</sup>	45,700	24,487
Hutchison Hain Organic (Hong Kong) Limited	Note 2	Tenancy of property of Prosperity REIT <sup>Note 5</sup>	302,016	161,568
Total			1,109,410	590,470

Notes:

- The connected person was a subsidiary of Cheung Kong (Holdings) Limited ("CKH"), a significant holder of Prosperity REIT up to 2 June 2015, and is a subsidiary of Cheung Kong Property Holdings Limited ("CKPH"), a significant holder of Prosperity REIT since 3 June 2015.
- The connected persons were associates of CKH, a significant holder of Prosperity REIT up to 2 June 2015, and are associated companies of CKPH, a significant holder of Prosperity REIT since 3 June 2015.
- For 2/F, Units 302-3, 306-7, New Treasure Centre.
- For installation of micro-transmission station equipment at Prosperity Place and indoor antennae at Harbourfront Landmark.
- For 1703B and 1704, 9 Chong Yip Street.

## Connected Party Transactions

### Connected Party Transactions – Building Management Services

The following table sets forth information in relation to building management services provided by the connected persons for the properties of Prosperity REIT during the Reporting Period:

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/receivable for the six months ended 30 June 2015 HK\$
Goodwell Property Management Limited <sup>Note 1</sup>	Note 3	Remuneration of DMC Manager	94,038
Goodwell Property Management Limited <sup>Note 2</sup>	Note 3	Remuneration of Carpark Manager	3,763
Citybase Property Management Limited <sup>Note 1</sup>	Note 3	Remuneration of DMC Manager	142,731
Citybase Property Management Limited <sup>Note 2</sup>	Note 3	Remuneration of Carpark Manager	34,645
Harbourfront Landmark Premium Services Limited <sup>Note 1</sup>	Note 4	Remuneration of DMC Manager	142,442
<b>Total</b>			<b>417,619</b>

Notes:

1. They are the managers appointed under the respective deeds of mutual covenant of the properties of Prosperity REIT (the "DMC Manager").
2. They are the carpark managers of certain properties of Prosperity REIT (the "Carpark Manager") as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005, as modified, amended and/or extended from time to time.
3. The connected persons were subsidiaries of CKH, a significant holder of Prosperity REIT up to 2 June 2015, and are subsidiaries of CKPH, a significant holder of Prosperity REIT since 3 June 2015.
4. The connected person was an associate of CKH, a significant holder of Prosperity REIT up to 2 June 2015, and is an associated company of CKPH, a significant holder of Prosperity REIT since 3 June 2015.



## Connected Party Transactions

### Connected Party Transactions — Expenses

The following table sets forth information on all the connected party transactions in which Prosperity REIT incurred its expenses (other than the building management fees and other charges of the building accounts mentioned above) during the Reporting Period:

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2015 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>Note 1</sup>	Property management and lease management fee	5,140,521
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>Note 1</sup>	Marketing service fee	5,461,733
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>Note 1</sup>	Carpark lease agency fee	1,199,163
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	1,478,466
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	25,105,035
Cheung Kong Companies <sup>Note 2</sup>	Associates or subsidiaries of a significant holder <sup>Note 1</sup>	Back-office support service fee	24,768
<b>Total</b>			<b>38,409,686</b>

Notes:

1. Significant holder being CKH up to 2 June 2015 and CKPH since 3 June 2015.
2. Cheung Kong Companies include Harbour Plaza North Point Catering Limited and Harbour Plaza Metropolis Limited.

## Connected Party Transactions

### Connected Party Transaction with HSBC Group\* for Bank Deposits

Prosperity REIT has engaged The Hongkong and Shanghai Banking Corporation Limited, the holding company of the Trustee, to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom) during the Reporting Period.

\* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Prosperity REIT).

### Other Connected Party Transactions

The following companies had provided back-office support services, carpark management services and property management services to Prosperity REIT during the Reporting Period and hence amounts due from Prosperity REIT as at 30 June 2015 were as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	4,395,733
Goodwell Property Management Limited	7,427,737
E-Park Parking Management Limited	206,755
Citybase Property Management Limited	935,295
Harbourfront Landmark Premium Services Limited	459,578
Total	13,425,098

### Repurchase, Sale or Redemption of Units

During the Reporting Period, other than the disposal of 1,104,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

## Holdings of Connected Persons in the Units of Prosperity REIT

The following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 30 June 2015		As at 31 December 2014
	Number of Units	Percentage of Unitholdings <sup>Note 6</sup>	Number of Units
Total Win Group Limited <sup>Note 1</sup>	176,328,129	12.35%	176,328,129
Wide Option Investments Limited <sup>Note 1</sup>	98,883,559	6.92%	98,883,559
HKSCC Nominees Limited <sup>Note 2</sup>	1,065,214,773	74.59%	1,056,197,192
HSBC <sup>Note 3</sup>	29,136,250	2.04%	44,180,250
ARA Asset Management (Prosperity) Limited <sup>Note 4</sup>	7,380,889	0.52%	852
Lan Hong Tsung, David <sup>Note 5</sup>	350,000	0.02%	–

Notes:

- Total Win Group Limited (“Total Win”) was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 30 June 2015.

Before 3 June 2015, Total Win was an indirect wholly-owned subsidiary of CKH, which was therefore deemed to hold 176,328,129 units held by Total Win during the period from 1 January 2015 to 2 June 2015. Since 3 June 2015, Total Win was an indirect wholly-owned subsidiary of CKPH, which was therefore deemed to hold 176,328,129 units held by Total Win as at 30 June 2015.

Before 3 June 2015, Wide Option Investments Limited (“Wide Option”) was a connected person of Prosperity REIT as it was an associated company (as defined under the REIT Code) of CKH, which was therefore deemed to hold 98,883,559 units held by Wide Option during the period from 1 January 2015 to 2 June 2015. Since 3 June 2015, Wide Option was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CKPH, which was therefore deemed to hold 98,883,559 units held by Wide Option as at 30 June 2015.

Therefore, CKH was deemed to hold 275,211,688 units during the period from 1 January 2015 to 2 June 2015 of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option. CKPH was deemed to hold 275,211,688 units as at 30 June 2015, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

During the period from 18 March 2015 to 2 June 2015, CK Hutchison Holdings Limited (“CK Hutchison”) was a connected person of Prosperity REIT as CKH, which was deemed to hold 275,211,688 units during the period, was a wholly-owned subsidiary of CK Hutchison.

## Connected Party Transactions

2. HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 30 June 2015. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.
3. HSBC Holdings plc. and other members of its group ("HSBC") were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 30 June 2015 and 31 December 2014. The Trustee's directors, senior executives, officers and their associates were beneficially interested in 100,000 units as at 30 June 2015 and were not beneficially interested in any units as at 31 December 2014. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 29,036,250 units and 44,180,250 units as at 30 June 2015 and 31 December 2014 respectively.
4. ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 30 June 2015.
5. Dr. Lan Hong Tsung, David was a connected person of Prosperity REIT as he was a director of the management company (as defined under the REIT code) of Prosperity REIT as at 30 June 2015.
6. The total number of issued units as at 30 June 2015 was 1,428,119,111.

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 30 June 2015.

## Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager in the Units of Prosperity REIT

As at 30 June 2015, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed were as follows:

Name	Number of Units		Percentage of Unitholdings <sup>Note 1</sup>
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	7,380,889	–	0.52%
Lan Hong Tsung, David	350,000	–	0.02%

Note:

1. The total number of issued units as at 30 June 2015 was 1,428,119,111.

Save as disclosed above, none of the Directors and chief executive of the REIT Manager had any interest in the units of Prosperity REIT as at 30 June 2015.

# Report on Review of Condensed Consolidated Financial Statements



**TO THE BOARD OF DIRECTORS OF  
ARA ASSET MANAGEMENT (PROSPERITY) LIMITED**

## Introduction

We have reviewed the condensed consolidated financial statements of Prosperity Real Estate Investment Trust and its subsidiaries set out on pages 25 to 51, which comprises the condensed consolidated statement of financial position as of 30 June 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in net assets attributable to unitholders, condensed consolidated statement of cash flows and the distribution statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. ARA Asset Management (Prosperity) Limited, as manager of Prosperity Real Estate Investment Trust, is responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

# Report on Review of Condensed Consolidated Financial Statements

## Scope of Review

We conducted our review 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. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
13 August 2015



# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
<b>Revenue</b>	4	<b>215,802</b>	197,793
Property management fees		(5,141)	(4,649)
Property operating expenses	6	(39,974)	(37,988)
Total property operating expenses		(45,115)	(42,637)
<b>Net property income</b>		<b>170,687</b>	155,156
Interest income		39	–
Manager's fee		(25,105)	(23,688)
Trust and other expenses	7	(4,458)	(17,830)
Change in fair value of investment properties		359,692	62,228
Change in fair value of derivative financial instruments		199	–
Finance costs	8	(36,645)	(29,637)
<b>Profit before taxation and transactions with unitholders</b>		<b>464,409</b>	146,229
Taxation	9	(17,500)	(16,183)
<b>Profit for the period, before transactions with unitholders</b>		<b>446,909</b>	130,046
Distribution to unitholders		(124,771)	(115,302)
<b>Profit for the period, after transactions with unitholders</b>		<b>322,138</b>	14,744
<b>Other comprehensive income – item that may be subsequently classified to profit or loss:</b>			
Change in fair value of cash flow hedge		(757)	4,225
<b>Total comprehensive income for the period, after transactions with unitholders</b>		<b>321,381</b>	18,969
<b>Income available for distribution to unitholders</b>		<b>124,771</b>	115,302
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.31</b>	0.09

# Distribution Statement

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
<b>Profit for the period, before transactions with unitholders</b>	<b>446,909</b>	130,046
<b>Adjustments:</b>		
Manager's fee	<b>24,544</b>	23,156
Acquisition fee	–	10,100
Change in fair value of investment properties	<b>(359,692)</b>	(62,228)
Change in fair value of derivative financial instruments	<b>(199)</b>	–
Finance costs	<b>6,298</b>	6,906
Deferred tax	<b>6,911</b>	7,322
<b>Income available for distribution</b> (note (i))	<b>124,771</b>	115,302
<b>Distributions to unitholders:</b>		
For the six months ended 30 June	<b>124,771</b>	115,302
<b>Distribution per unit (HK\$)</b> (note (ii))	<b>0.0871</b>	0.0815

Notes:

- (i) In accordance with the trust deed, constituting Prosperity Real Estate Investment Trust ("Prosperity REIT") (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 ARA Asset Management (Prosperity) Limited (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\$24,544,000 (2014: HK\$23,156,000) out of the total manager's fee of HK\$25,105,000 (2014: HK\$23,688,000) (the difference of HK\$561,000 (2014: HK\$532,000) is paid in cash), and no acquisition fee paid for the period (2014: HK\$10,100,000);
- (b) change in fair value of investment properties of HK\$359,692,000 (2014: HK\$62,228,000), and change in fair value of derivative financial instruments of HK\$199,000 (2014: Nil);

## Distribution Statement

For the six months ended 30 June 2015

- (c) adjustment in respect of the difference between the accounting finance cost of HK\$36,645,000 (2014: HK\$29,637,000) less cash finance cost of HK\$30,347,000 (2014: HK\$22,731,000); and
  - (d) deferred tax provision of HK\$6,911,000 (2014: HK\$7,322,000).
- (ii) The distribution per unit of HK\$0.0871 (2014: HK\$0.0815) is calculated based on Prosperity REIT's income available for distribution of HK\$124,771,000 (2014: HK\$115,302,000) over 1,432,382,505 units (2014: 1,414,948,774 units), representing units in issue as at 30 June 2015 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 2015

	Notes	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	<b>10,258,000</b>	9,890,000
<b>Current assets</b>			
Trade and other receivables	12	<b>10,253</b>	10,016
Bank balances and cash		<b>82,925</b>	65,184
Total current assets		<b>93,178</b>	75,200
<b>Total assets</b>		<b>10,351,178</b>	9,965,200
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	13	<b>7,685</b>	560
Term loans	14	<b>2,806,909</b>	2,800,611
Deferred tax liabilities		<b>164,253</b>	157,342
Total non-current liabilities, excluding net assets attributable to unitholders		<b>2,978,847</b>	2,958,513
<b>Current liabilities</b>			
Trade and other payables	15	<b>193,745</b>	187,920
Amounts due to related companies	16	<b>13,425</b>	12,253
Derivative financial instruments	13	–	6,567
Provision for taxation		<b>13,486</b>	2,910
Manager's fee payable		<b>12,797</b>	12,289
Distribution payable		<b>124,771</b>	116,062
Total current liabilities		<b>358,224</b>	338,001
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>3,337,071</b>	3,296,514
<b>Net assets attributable to unitholders</b>		<b>7,014,107</b>	6,668,686
<b>Units in issue ('000)</b>	17	<b>1,428,119</b>	1,419,635
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	18	<b>4.91</b>	4.70

# Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2015

	Issued units HK\$'000 (unaudited)	Unit issue costs HK\$'000 (unaudited)	Hedging reserve HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2015 (audited)	2,990,328	(91,278)	(560)	3,770,196	6,668,686
<b>OPERATIONS</b>					
Profit for the period, before transactions with unitholders	-	-	-	446,909	446,909
Distribution paid and payable	-	-	-	(124,771)	(124,771)
	-	-	-	322,138	322,138
Change in fair value of cash flow hedge	-	-	(757)	-	(757)
Total comprehensive income for the period	-	-	(757)	322,138	321,381
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager	24,040	-	-	-	24,040
Net assets attributable to unitholders as at 30 June 2015	3,014,368	(91,278)	(1,317)	4,092,334	7,014,107

## Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2014

	Issued units HK\$'000 (unaudited)	Unit issue costs HK\$'000 (unaudited)	Hedging reserve HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2014 (audited)	2,934,637	(91,278)	(17,024)	3,535,067	6,361,402
<b>OPERATIONS</b>					
Profit for the period, before transactions with unitholders	-	-	-	130,046	130,046
Distribution paid and payable	-	-	-	(115,302)	(115,302)
	-	-	-	14,744	14,744
Change in fair value of cash flow hedge	-	-	4,225	-	4,225
Total comprehensive income for the period	-	-	4,225	14,744	18,969
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager	32,238	-	-	-	32,238
Net assets attributable to unitholders as at 30 June 2014	2,966,875	(91,278)	(12,799)	3,549,811	6,412,609

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Net cash from operating activities	<b>172,419</b>	160,324
Investing activities:		
Acquisition	–	(222,627)
Other investing activities	<b>(8,269)</b>	(14,718)
Cash used in investing activities	<b>(8,269)</b>	(237,345)
Financing activities:		
Drawdown of secured revolving loan	<b>55,000</b>	290,000
Repayment of secured revolving loan	<b>(55,000)</b>	(70,000)
Bank facility origination fees	–	(15,660)
Interest payment of term loans and revolving loan	<b>(30,347)</b>	(22,731)
Distribution to unitholders	<b>(116,062)</b>	(105,488)
Net cash (used in) from financing activities	<b>(146,409)</b>	76,121
Net increase (decrease) in cash and cash equivalents	<b>17,741</b>	(900)
Cash and cash equivalents at beginning of the period	<b>65,184</b>	58,096
<b>Cash and cash equivalents at end of period, represented by bank balances and cash</b>	<b>82,925</b>	57,196

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

## 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 of Hong Kong Limited since 16 December 2005. Prosperity REIT is governed by the Trust Deed made between the REIT Manager and HSBC Institutional Trust Services (Asia) Limited (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 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.

## 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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and the relevant disclosure requirements set out in Appendix C of the REIT Code.

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources, the Group has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 3 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 used in these condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014 except as described below.

In the current period, the Group has applied the following amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the amendments to the HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior years and/or on the disclosures set out in these financial statements.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 3 Principal Accounting Policies *(continued)*

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>4</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016

#### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

### 3 Principal Accounting Policies *(continued)*

#### HKFRS 9 Financial Instruments *(continued)*

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability to be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 3 Principal Accounting Policies *(continued)*

#### HKFRS 9 Financial Instruments *(continued)*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The REIT Manager anticipates that the application of HKFRS 9 will not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

The REIT Manager anticipates that the application of these amendments in the future will not have a material effect on the Group's consolidated financial statements.

### 4 Revenue

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Gross rental from investment properties		
Rental income	<b>175,500</b>	159,638
Car park income	<b>12,603</b>	11,519
	<b>188,103</b>	171,157
Rental related income	<b>27,699</b>	26,636
	<b>215,802</b>	197,793

### 5 Segment Information

Prosperity REIT is currently investing in eight office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennium Plaza, 9 Chong Yip Street, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 5 Segment Information *(continued)*

#### Six months ended 30 June 2015 (unaudited)

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip Street HK\$'000	Harbourfront Landmark (portion) HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	62,755	42,881	18,843	13,836	29,232	23,220	17,780	7,255	215,802
Segment profit	50,410	35,310	15,218	11,375	21,207	18,012	13,698	5,457	170,687
Interest income									39
Manager's fee									(25,105)
Trust and other expenses									(4,458)
Change in fair value of investment properties									359,692
Change in fair value of derivative financial instruments									199
Finance costs									(36,645)
Profit before taxation and transactions with unitholders									464,409

#### Six months ended 30 June 2014 (unaudited)

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip Street HK\$'000	Harbourfront Landmark (portion) HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	60,271	38,693	15,623	11,699	27,263	20,954	16,598	6,692	197,793
Segment profit	49,466	31,116	12,151	9,345	20,865	14,382	12,812	5,019	155,156
Manager's fee									(23,688)
Trust and other expenses									(17,830)
Change in fair value of investment properties									62,228
Finance costs									(29,637)
Profit before taxation and transactions with unitholders									146,229

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 6 Property Operating Expenses

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Building management expenses	18,383	17,295
Utilities	3,633	3,268
Car park operating expenses	3,187	2,963
Marketing service fee	5,462	5,182
Lease commission	2,589	2,980
Repairs and maintenance	3,441	3,378
Valuation fees (paid to principal valuer)	98	133
Audit fee	664	648
Other charges	2,517	2,141
	<b>39,974</b>	37,988

### 7 Trust and Other Expenses

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Acquisition expenses	–	3,744
Acquisition fee (paid in units)	–	10,100
Audit fee	115	131
Trustee's fee	1,478	1,407
Bank charges	989	480
Legal and professional fees	235	148
Registrar fee	300	300
Back-office support service fee	25	37
Public relations-related expenses	282	190
Trust administrative expenses	1,034	1,293
	<b>4,458</b>	17,830

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 8 Finance Costs

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Interest expense on:		
— Secured term loans	24,713	17,700
— Unsecured term loan	4,528	4,000
— Equalisation of interest expense through interest rate swaps	7,286	6,722
	<b>36,527</b>	28,422
— Secured revolving loan	118	1,215
	<b>36,645</b>	29,637

### 9 Taxation

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Current tax	10,185	8,861
Under-provision in prior years	404	–
Deferred tax	6,911	7,322
	<b>17,500</b>	16,183

The estimated tax rate used is 16.5% for the periods 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. The investment property is not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and hence the presumption that the carrying amounts are recovered entirely through sale is not rebutted.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 10 Basic Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$446,909,000 (2014: HK\$130,046,000) by the weighted average of 1,428,080,500 (2014: 1,407,199,843) 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.

### 11 Investment Properties

	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Fair value at beginning of the period/year	<b>9,890,000</b>	8,518,000
Additional expenditure	<b>8,308</b>	25,845
Acquisition (note 21)	–	1,014,054
Change in fair value of investment properties	<b>359,692</b>	332,101
Fair value at end of the period/year	<b>10,258,000</b>	9,890,000

In prior year, Prosperity REIT completed the acquisition of 9 Chong Yip Street from Cactus Holdings Limited, which was a subsidiary of Hutchison Whampoa Limited at that time, through the acquisition of the entire equity interest in Clifton Properties Limited ("Clifton"). Details of the acquisition are set out in note 21.

In estimating the fair value of investment properties, it is the Group's policy to engage third party qualified external valuer to perform the valuation. The REIT Manager works closely with the qualified external valuer to establish the appropriate valuation technique and inputs to the model.



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 11 Investment Properties *(continued)*

On 30 June 2015 and 31 December 2014, an independent valuation was undertaken by Jones Lang LaSalle Limited. The firm is an independent qualified professional valuer not connected to the Group and has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income and cross-checked by sales evidences available on the market. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and they involve professional judgment in relation to the adjustments made by the independent valuer.

Certain of the Group's investment properties as at 30 June 2015, with aggregate carrying value of HK\$6,462,000,000 (31 December 2014: HK\$6,280,000,000), have been pledged to secure banking facilities granted to the Group.

### 12 Trade and Other Receivables

	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Trade receivables	506	438
Less: allowance for doubtful debts	(64)	(63)
	442	375
Deposits, prepayments and other receivables	9,811	9,641
	10,253	10,016

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 12 Trade and Other Receivables *(continued)*

Ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<b>30 June 2015 HK\$'000 (unaudited)</b>	31 December 2014 HK\$'000 (audited)
Current-1 month	<b>347</b>	374
2-3 months	<b>77</b>	1
Over 3 months	<b>18</b>	-
	<b>442</b>	375

### 13 Derivative Financial Instruments

	<b>30 June 2015 HK\$'000 (unaudited)</b>	31 December 2014 HK\$'000 (audited)
Derivative financial instruments are analysed as:		
Derivatives under hedge accounting:		
Cash flow hedges — interest rate swaps	<b>1,317</b>	560
Derivatives not under hedge accounting:		
Interest rate swaps	<b>6,368</b>	6,567
	<b>7,685</b>	7,127
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Non-current liabilities	<b>7,685</b>	560
Current liabilities	<b>-</b>	6,567
	<b>7,685</b>	7,127

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 13 Derivative Financial Instruments *(continued)*

The Group uses interest rate swaps as hedging instrument in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowing from floating rates to fixed rates.

#### **Derivatives under hedge accounting:**

Contracts with notional amount of HK\$150,000,000 (31 December 2014: HK\$150,000,000) entered in December 2014 will mature in December 2018 (31 December 2014: December 2018). These contracts have fixed interest payments at 1.483% (31 December 2014: 1.483%) per annum and have floating interest receipts at three months HIBOR for periods until maturity date. The REIT Manager designated that the interest rate swaps are effective hedging instruments.

#### **Derivatives not under hedge accounting:**

During the year ended 31 December 2014, in relation to the renewal of the banking facilities as set out in note 14, the interest rate swap contract entered in 2010, previously designated under hedge accounting, was no longer effective under hedge accounting. In June 2015, the contract has matured and the change in fair value of such derivative financial instruments is recognised to profit or loss for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

During the reporting period, the Group has newly entered into three interest rate swap contracts. Two of which carrying fixed interest payments at 1.299% and 1.475% per annum, and have floating interest receipts at three months HIBOR with total notional amount of HK\$796,000,000 will mature in December 2018. The remaining one with notional amount of HK\$620,000,000 will mature in June 2019. It has fixed interest payment at 0.455% per annum, and floating interest receipts at three months HIBOR minus 1.5% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months.

The total change in fair value of the derivative financial instruments not under hedge accounting amounting to a gain of HK\$199,000, is recognised in the profit or loss for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

All derivatives are measured at fair value at the end of each reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the remaining duration of the swaps.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 13 Derivative Financial Instruments *(continued)*

#### Derivatives not under hedge accounting: *(continued)*

The fair value of the derivative financial instruments falls under level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

### 14 Borrowings

	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Secured term loans	2,474,000	2,474,000
Unsecured term loan	380,000	380,000
Bank facility origination fees	(47,091)	(53,389)
	<b>2,806,909</b>	2,800,611
Carrying amount repayable:		
Within a period of more than one year but not exceeding two years	376,091	–
Within a period of more than two years but not exceeding five years	2,430,818	2,800,611
	<b>2,806,909</b>	2,800,611

On 22 January 2014, the Group has been granted two facilities of HK\$404,000,000 secured term loan and HK\$380,000,000 unsecured term loan respectively, which have been fully utilised by the Group in 2014.

On 14 November 2014, the Group has been granted a facility of HK\$2,500,000,000, comprising a HK\$2,070,000,000 secured term loan and a HK\$430,000,000 revolving credit facility to repay its existing banking facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility which was entered in 2010.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 14 Borrowings *(continued)*

Details of the terms and conditions of the facilities are as follows:

- (i) HK\$2,070,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.35% per annum and is repayable in full on 14 November 2019;
- (ii) HK\$430,000,000 revolving loan bears interest at floating rate of HIBOR+1.35% per annum and is repayable on demand;
- (iii) HK\$404,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.45% per annum and is repayable in full on 16 January 2019; and
- (iv) HK\$380,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.50% per annum and it is repayable in full on 16 January 2017.

The above secured term loans and revolving credit facility are secured by certain investment properties of the Group as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for all the facilities.

The bank facility origination fees consist of advisory fee and front-end fee with respect to the banking facilities and are included in measuring the borrowings at amortised cost.

### 15 Trade and Other Payables

	<b>30 June 2015 HK\$'000 (unaudited)</b>	31 December 2014 HK\$'000 (audited)
Trade payables	<b>3,713</b>	2,874
Tenants' deposits		
— Outside parties	<b>136,953</b>	135,014
— Related parties	<b>590</b>	590
Rental received in advance		
— Outside parties	<b>3,818</b>	3,117
Other payables	<b>48,671</b>	46,325
	<b>193,745</b>	187,920

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 15 Trade and Other Payables (continued)

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

	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Current-1 month	1,043	1,751
2-3 months	834	932
Over 3 months	1,836	191
	<b>3,713</b>	2,874

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. 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\$84,172,000 as at 30 June 2015 (31 December 2014: HK\$85,776,000).

### 16 Amounts due to Related Companies

The amounts due to related companies arose from expenses of back-office support services, property management services and car park management services provided by related companies. The amounts are unsecured, interest-free and repayable on demand.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 17 Units in Issue

	Number of units	HK\$'000
Balance as at 1 January 2014	1,396,178,197	2,934,637
Payment of acquisition fee through issuance of new units during the year	4,431,768	10,100
Payment of Manager's base fee and variable fee through issuance of new units during the year	19,025,109	45,591
Balance as at 31 December 2014	1,419,635,074	2,990,328
Payment of Manager's base fee and variable fee through issuance of new units during the period	8,484,037	24,040
Balance as at 30 June 2015	1,428,119,111	3,014,368

Subsequent to the end of the reporting period, 4,263,394 units (31 December 2014: 4,254,083 units) at HK\$2.9354 (31 December 2014: HK\$2.8237) per unit were issued to the REIT Manager as settlement of base fee and variable fee for the period from 1 April 2015 to 30 June 2015.

### 18 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$1,317,000 (31 December 2014: HK\$560,000), and the total number of 1,428,119,111 units in issue as at 30 June 2015 (31 December 2014: 1,419,635,074 units).

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 19 Major Non-Cash Transaction

During the period, the REIT Manager earned manager's fee of HK\$25,105,000 (2014: manager's fee and acquisition fee of HK\$33,788,000) of which HK\$24,544,000 (2014: HK\$33,256,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$12,029,000 (2014: HK\$21,609,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$12,515,000 (31 December 2014: HK\$12,011,000) included in other payables would be paid in units subsequent to the period end.

### 20 Net Current Liabilities

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$265,046,000 (31 December 2014: HK\$262,801,000).

### 21 Acquisition

On 22 January 2014, Prosperity REIT completed the acquisition of 9 Chong Yip Street from Cactus Holdings Limited, which was a subsidiary of Hutchison Whampoa Limited at that time, through the acquisition of the entire equity interest in Clifton for a cash consideration of approximately HK\$1,006,600,000.

Acquisition fee and acquisition expenses amounting to HK\$13,844,000 have been recognised as expenses, and included in the "trust and other expenses" in the condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2014.



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 21 Acquisition (continued)

Details of the acquisition are as follows:

	HK\$'000
<b>Non-current assets</b>	
Investment properties	1,014,054
<b>Current Assets</b>	
Trade receivables	75
Other receivables, deposits and prepayments	4,269
	4,344
<b>Current liabilities</b>	
Other payables and accruals	1,911
Receipt in advance	995
Tenancy deposits	8,865
	11,771
Total consideration, satisfied by cash	1,006,627
Net cash outflow financed by:	
Secured term loan	404,000
Unsecured loan	380,000
Secured revolving loan	222,627
	1,006,627

### 22 Total Assets Less Current Liabilities

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$9,992,954,000 (31 December 2014: HK\$9,627,199,000).

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 23 Connected and Related Party Transactions

During the period, the Group entered into the following transactions with connected and related parties:

	Notes	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Rent and rental related income from			
Goodwell Property Management Limited	(a)	<b>762</b>	755
Hutchison Telephone Company Limited	(b)	<b>46</b>	46
Hutchison China Meditech (HK) Limited	(c)	–	282
Hutchison Hain Organic (Hong Kong) Limited	(b)	<b>302</b>	–
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	<b>1,199</b>	1,096
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>5,141</b>	4,649
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>5,462</b>	5,181
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>1,478</b>	1,407
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>25,105</b>	23,688
Acquisition fee			
ARA Asset Management (Prosperity) Limited		–	10,100
Back-office support service fee			
Cheung Kong Companies	(d)	<b>25</b>	37

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

### 23 Connected and Related Party Transactions *(continued)*

Balances with connected and related parties are as follows:

	Notes	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Amount due to			
Citybase Property Management Limited	(a)	935	205
Goodwell-Prosperity Property Services Limited	(a)	4,396	4,816
Goodwell Property Management Limited	(a)	7,428	6,328
Harbourfront Landmark Premium Services Limited	(d)	459	511
E-Park Parking Management Limited	(a)	207	393
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	404	404
Hutchison Telephone Company Limited	(b)	24	24
Hutchison Hain Organic (Hong Kong) Limited	(b)	162	162

Notes:

- These companies were subsidiaries of Cheung Kong (Holdings) Limited ("CKH"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT up to 2 June 2015, and are subsidiaries of Cheung Kong Property Holdings Limited ("CKPH"), a significant unitholder of Prosperity REIT since 3 June 2015.
- These companies were associates of CKH up to 2 June 2015, and are associated companies (as defined in the REIT Code) of CKPH since 3 June 2015.
- This company was an associate of CKH during the six months ended 30 June 2014.
- These companies were associates of CKH up to 2 June 2015, and are subsidiaries of CKPH since 3 June 2015.

Under the REIT Code, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CKH group/CKPH group technically constitutes a contract between the Group and CKH group/CKPH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH/CKPH, for the building management services provided constitutes a connected party transaction. During the reporting period, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$418,000 (2014: HK\$418,000).

## Performance Table

### Results Analysis

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Revenue	<b>215,802</b>	197,793
Net property income	<b>170,687</b>	155,156
Profit for the period, before transactions with unitholders	<b>446,909</b>	130,046
Income available for distribution	<b>124,771</b>	115,302
Basic earnings per unit (HK\$)	<b>0.31</b>	0.09
Distribution per unit (HK\$)	<b>0.0871</b>	0.0815

## Performance Table

### Major Assets and Liabilities

	<b>30 June 2015 HK\$'000 (unaudited)</b>	<b>31 December 2014 HK\$'000 (audited)</b>
Investment properties	<b>10,258,000</b>	9,890,000
Borrowings, excluding bank facility origination fees	<b>(2,854,000)</b>	(2,854,000)
Net assets attributable to unitholders	<b>7,014,107</b>	6,668,686
Net asset value per unit (HK\$)	<b>4.91</b>	4.70

### Other Information

	<b>30 June 2015</b>	<b>31 December 2014</b>
The highest traded price during the period/year (HK\$)	<b>3.05</b>	2.74
The highest discount of the traded price to net asset value	<b>(37.9%)</b>	(41.7%)
The lowest traded price during the period/year (HK\$)	<b>2.65</b>	2.18
The lowest discount of the traded price to net asset value	<b>(46.0%)</b>	(53.6%)
The net yield per unit based on market price at the end of period/year <sup>1</sup>	<b>6.3%<sup>1</sup></b>	6.2%

<sup>1</sup> Annualised yield for the six months ended 30 June 2015 is based on the distribution per unit of HK\$0.0871 and the closing unit price of HK\$2.78 as at 30 June 2015. For the year ended 31 December 2014, the yield is based on the distribution per unit of HK\$0.1630 and the closing unit price of HK\$2.64 as at 31 December 2014.

# Investment Properties Portfolio

As at 30 June 2015

Property	Type	Lease term	Lease expiry date	Location	Valuation 30 June 2015 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,120
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	1,936
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,086
Harbourfront Landmark (portion)	C	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	494
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,503
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	984
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	832
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	303
Total					10,258

Note: Type of properties: O-Office, C-Commercial, I/O-Industrial/Office, I-Industrial

## Corporate Information

### Board of Directors of the REIT Manager

CHIU Kwok Hung, Justin  
*Chairman and Non-executive Director*

LIM Hwee Chiang  
*Non-executive Director*

WONG Lai Hung, Mavis  
*Executive Director and Chief Executive Officer*

MA Lai Chee, Gerald  
*Non-executive Director*

LAN Hong Tsung, David  
*Independent Non-executive Director*

SNG Sow-Mei (alias POON Sow Mei)  
*Independent Non-executive Director*

WONG Kwai Lam  
*Independent Non-executive Director*

### Company Secretary of the REIT Manager

SENG Sze Ka Mee, Natalia

### Trustee

HSBC Institutional Trust Services (Asia)  
Limited

### Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

### Principal Valuer

Jones Lang LaSalle Limited

### Principal Bankers

DBS Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### Legal Adviser

Baker & McKenzie

### Registered Office

Units 5508–09, 55/F, The Center  
99 Queen's Road Central  
Hong Kong

### Unit Registrar and Transfer Office

Computershare Hong Kong Investor  
Services Limited  
Shops 1712–16, 17/F, Hopewell Centre  
183 Queen's Road East, Wan Chai  
Hong Kong

### Stock Code

The Stock Exchange of Hong Kong Limited: 808

### Investor Relations

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### Website

[www.prosperityreit.com](http://www.prosperityreit.com)

### Key Dates

Interim Results Announcement  
13 August 2015

Closure of Register of Unitholders for interim distribution  
27 August 2015 to 1 September 2015  
(both days inclusive)

Payment of interim distribution  
7 September 2015

*The interim report 2015 (in both English and Chinese versions) ("Interim Report") has been posted on Prosperity REIT's website at [www.prosperityreit.com](http://www.prosperityreit.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). Unitholders who have chosen (or are deemed to have consented) to receive Prosperity REIT's Corporate Communication (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) by electronic means through Prosperity REIT's website and who for any reason have difficulty in receiving or gaining access to the Interim Report posted on Prosperity REIT's website may request a printed copy of the Interim Report free of charge.*

*Unitholders may at any time change the choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) and/or language of Prosperity REIT's Corporate Communication by reasonable prior notice in writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, either by post or by email to [prosperityreit.ecom@computershare.com.hk](mailto:prosperityreit.ecom@computershare.com.hk).*

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**Grade A Office 甲級寫字樓**



- 1** The Metropolis Tower  
都會大廈
- 2** Prosperity Millennia Plaza  
泓富產業千禧廣場
- 3** 9 Chong Yip Street  
創業街9號

**Commercial 商用物業**



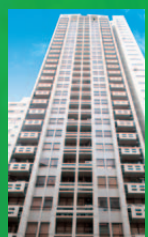
- 4** Harbourfront Landmark (portion)  
海名軒 (部分)
- 5** Prosperity Place  
泓富廣場

**Industrial / Office 工商綜合物業**



- 6** Trendy Centre  
潮流工貿中心
- 7** Prosperity Center (portion)  
創富中心 (部分)

**Industrial 工業物業**



- 8** New Treasure Centre (portion)  
新寶中心 (部分)

# Portfolio Map

## 物業分佈圖



Stock Code 股份代號: 808



[www.prosperityreit.com](http://www.prosperityreit.com)

Manager 管理人



ARA Asset Management (Prosperity) Limited  
泓富資產管理有限公司

Prosperity REIT is managed by  
ARA Asset Management (Prosperity) Limited  
泓富產業信託  
由泓富資產管理有限公司管理

