



PROSPERITY  
REIT 泓富產業信託

Stock Code 股份代號 : 808

Build for a 精微致著 前景秀麗

# BRIGHT FUTURE

Interim Report 中期報告 2018



# 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 seven 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 1.28 million sq. ft..

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

## ABOUT THE REIT MANAGER

ARA Assets Management (Prosperity) Limited is a wholly-owned subsidiary of ARA Asset Management Limited ("ARA"), a premier global real assets fund manager driven by a vision to be the best-in-class real assets fund management company focused on the management of REITs, private real estate funds and infrastructure.

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.



The prosperous prospect begins with the assembly of efforts: No matter how fine and small an effort is, with its assembly through a long time it will become evident. The splendid policy and measure are the lighthouse to lead the business to go forward.

The craftsmanship requirements of embroidery are: straight, round, neat and tidy, accurate, consistent, fine sewing, and the work should not askew. Through each and every sew the fineness of the art of embroidery is shown. It is the best metaphor for the success of Prosperity REIT: each and every effort done by Prosperity REIT in this long period of time became more and more evident, and with the fine and thorough strategy, the business of the company shall move forward in a steady pace.



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# PERFORMANCE HIGHLIGHTS

## DISTRIBUTION PER UNIT <sup>1</sup>

 **0.5%**

**1H2018** **HK\$0.0920**

1H2017 HK\$0.0915

## NET ASSET VALUE PER UNIT

 **3.3%**

**As at 30 Jun 2018** **HK\$5.66**

As at 31 Dec 2017 HK\$5.48

## GEARING RATIO

 **0.7%**<sup>2</sup>

**As at 30 Jun 2018** **20.8%**

As at 31 Dec 2017 21.5%


## PROPERTY VALUATION

 **3.0%**

**As at 30 Jun 2018** **10,800 million**

As at 31 Dec 2017 10,490 million

## AVERAGE EFFECTIVE UNIT RENT <sup>1</sup>

 **1.9%**

**1H2018** **HK\$24.58 per sq. ft.**

1H2017 HK\$24.11 per sq. ft.

## COST-TO-REVENUE RATIO <sup>1</sup>

 **0.2%**<sup>2</sup>

**1H2018** **20.2%**

1H2017 20.4%

Notes:

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

<sup>2</sup> Absolute change.

## Performance Highlights

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)	Percentage change Increase/ (Decrease)
Distribution per unit ("DPU")	<b>HK\$0.0920</b>	HK\$0.0915	0.5%

### KEY FINANCIAL FIGURES

	As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited)	Percentage change Increase/ (Decrease)
Net asset value per unit	<b>HK\$5.66</b>	HK\$5.48	3.3%
Property valuation	<b>HK\$10,800 million</b>	HK\$10,490 million	3.0%
Gearing ratio <sup>1</sup>	<b>20.8%</b>	21.5%	(0.7%) <sup>2</sup>

### OPERATION DATA

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)	Percentage change Increase/ (Decrease)
Revenue	<b>HK\$221.1 million</b>	HK\$222.5 million	(0.6%) <sup>3</sup>
Net property income	<b>HK\$176.5 million</b>	HK\$177.0 million	(0.3%) <sup>3</sup>
Average effective unit rent	<b>HK\$24.58 per sq. ft.</b>	HK\$24.11 per sq. ft.	1.9%
Occupancy rate (as at 30 June)	<b>96.0%</b>	96.7%	(0.7%) <sup>2</sup>
Cost-to-revenue ratio	<b>20.2%</b>	20.4%	(0.2%) <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.
- <sup>3</sup> Decrease was mainly due to the transitory downtime from replacement tenancies in The Metropolis Tower.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONS REVIEW

As at 30 June 2018, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 30 June 2018, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 30 June 2018, 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	3,290	88.3%
Prosperity Millennia Plaza	North Point	217,955	43	2,230	98.0%
9 Chong Yip Street	Kwun Tong	136,595	68	1,130	98.6%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,815	99.2%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,080	95.6%
Prosperity Center (portion)	Kwun Tong	149,253	105	905	97.6%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	350	100%
<b>Total</b>		1,275,153	498	10,800	96.0%

# Management Discussion and Analysis

During the six months ended 30 June 2018 (the “**Reporting Period**”), the global market has experienced robust economic growth fueled by major economies such as the U.S., China and Europe. In the U.S., GDP growth was 2.2% in the first quarter of 2018. Unemployment rate fell to 18-year low of 3.8% and inflation rate climbed to 2.8% in May. As such, U.S. Federal Reserve hiked its interest rate twice since January 2018 with a clear anticipation of another two hikes in the remaining year. In China, GDP had a stable growth of 6.8% in the first half of 2018. Despite the positive growth, the outlook of the global economy is overshadowed by financial and political risks. On one hand, the hiked interest rates have triggered capital outflow from emerging markets. For another, the political risk caused by the U.S. trade war against other major economies has casted uncertainties in the economic growth.

In spite of the U.S. interest rate hikes, Hong Kong has still maintained a low interest rate environment. Taking advantage of a stable economy and a low cost of capital, Hong Kong property market remains robust. The residential price has grown 21% since early 2017, reaching all-time high, as per the Rating and Valuation Department. The price of other property sector shared similar momentum.

The leasing demand for office has also been supported by high GDP growth and low unemployment rate. The demand driver came from banking and financial services occupiers, PRC companies and flexible working operators. Central and its peripheral business districts office rents remain high with low vacancy, resulting in the company relocation eastward to Kowloon East newly developed high quality buildings.

During the Reporting Period, Prosperity REIT achieved a rental reversion rate of 6.6%, complemented with a stable occupancy rate of 96.0%. The average effective unit rent of Prosperity REIT’s portfolio recorded a growth of 1.9% to HK\$24.58 per sq. ft.. This solid performance was attributable to our proactive leasing strategies, premium quality of our properties, as well as our attentive property management services.

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 20.2% for the Reporting Period.

As at 30 June 2018, Prosperity REIT’s gearing ratio remained at a healthy level of 20.8% (31 December 2017: 21.5%), providing us with a strong balance sheet to take advantage of future growth opportunities.

# Management Discussion and Analysis

## INVESTMENT REVIEW

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

## ASSET ENHANCEMENT

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

### Prosperity Place and Prosperity Millennia Plaza

Prosperity Place is located in the Kwun Tong district of Kowloon East. The building is close to the Eastern Cross Harbour Tunnel, and the Kwun Tong MTR Station is just a three-minute walk away.

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

We have replaced one of the chiller sets by a more energy-efficient model in 2014 and 2015 for Prosperity Place and Prosperity Millennia Plaza respectively, and achieved notable energy cost savings. Considering higher maintenance costs for the remaining aging chiller sets and the upcoming increment of electricity tariff, we have further replaced another set of these two properties in order to upkeep a reliable and efficient air-conditioning provision.

### The Metropolis Tower

The Metropolis Tower is located in commercial hub of Hung Hom, features a spectacular sea view of the Victoria Harbour. In order to align with the newly completed Grade A office building specification and to increase the competitiveness of our property, renovation of executive and common washrooms on selective floors have been carried out.



# Management Discussion and Analysis

## OUTLOOK

Global economy is generally expected to remain on an expansion track in the remaining of 2018, notwithstanding the trade war repercussions in stock markets, investment sentiment and political tensions. As a result of the tax reforms set the pace of positive return, U.S. corporates performed stable.

China's GDP increased by 6.8% year-on-year in the first half of the year. Yet, the continued uncertainty resulted from the U.S. tariff may impact on China's economic growth. However, given the government's economic transformation and financial de-leveraging policy, it is believed that the Chinese economy will be steady and healthy in the long run.

Hong Kong's economy continued to grow solidly in the first half of 2018, supported by retail and tourism sector recovery. Barring the uncertainties affecting Hong Kong economy, such as trade protectionism and the potential interest rate hike, the property leasing and investment market is in a buoyant sentiment in Hong Kong.

Prosperity REIT has demonstrated the ability to capture market opportunities and to effectively manage the operation throughout different economic cycles. With a strong presence in the Kowloon East district, Prosperity REIT is well-positioned to gain further benefits from the Kowloon East transformation, together with the Express Rail Link completion in this year. 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.

# 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:

	<b>Turnover</b> HK\$'000	<b>Rental related income</b> HK\$'000	<b>Revenue</b> HK\$'000	<b>Net property income</b> HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	52,570	10,230	62,800	50,414
Prosperity Millennia Plaza	39,614	7,119	46,733	38,878
9 Chong Yip Street	17,828	2,069	19,897	15,506
<b>Commercial</b>				
Prosperity Place	37,259	117	37,376	29,909
<b>Industrial/Office</b>				
Trendy Centre	22,739	3,556	26,295	21,191
Prosperity Center (portion)	18,281	1,662	19,943	14,737
<b>Industrial</b>				
New Treasure Centre (portion)	7,047	1,013	8,060	5,842
<b>Total</b>	<b>195,338</b>	<b>25,766</b>	<b>221,104</b>	<b>176,477</b>

# Management Discussion and Analysis

## Revenue

During the Reporting Period, revenue slightly decreased to HK\$221.1 million, being HK\$1.4 million or 0.6% lower than the last corresponding half year. The drop was mainly due to the transitory downtime from replacement tenancies in The Metropolis Tower.

## Net Property Income

For the Reporting Period, the net property income was HK\$176.5 million, being HK\$0.5 million or 0.3% lower than the last corresponding half year. The cost-to-revenue ratio was 20.2%.

## Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$136.3 million, representing a DPU of HK\$0.0920. This represents an annualized distribution yield of 5.8%<sup>4</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\$4.0 million (equivalent to HK\$0.0027 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>4</sup> Based on Prosperity REIT's closing unit price of HK\$3.18 as at 29 June 2018

# Management Discussion and Analysis

## Liquidity and Financing

As at 30 June 2018, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

- (i) A term loan and revolving credit facility of up to an aggregate principal amount of HK\$1,970 million (the “**HK\$1,970 Million Facilities**”) comprising a HK\$1,540 million unsecured term loan facility and a HK\$430 million unsecured revolving credit facility, which bear interest at a margin of 0.82% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 30 November 2017, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the “**HK\$800 Million Facility**”).

In relation to the HK\$1,970 Million Facilities, the term loan facility of HK\$1,540 million was fully drawn on 30 November 2017. None of the revolving credit facility was drawn as at 30 June 2018.

The HK\$800 Million Facility was fully drawn on 31 August 2016.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 30 June 2018, the interest costs for approximately 90% (31 December 2017: 90%) 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 20.8% as at 30 June 2018 (31 December 2017: 21.5%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 25.5% as at 30 June 2018 (31 December 2017: 26.0%).

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

# 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\$305.5 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Fair value at the beginning of the period/year	<b>10,490,000</b>	10,183,000
Additional expenditure	<b>4,546</b>	11,303
Change in fair value of investment properties	<b>305,454</b>	295,697
Fair value at the end of the period/year	<b>10,800,000</b>	10,490,000

## Charges on Assets

As at 30 June 2018, all bank loan facilities of Prosperity REIT are unsecured. None of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of the Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities and the HK\$800 Million Facility.

## EMPLOYEES

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

# CORPORATE GOVERNANCE

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

During the Reporting Period, the Trust Deed has been amended for (i) changing the distribution formula to reflect the minimum annual distribution requirement under the Code on Real Estate Investment Trusts; (ii) empowering the chairman of a meeting of unitholders to allow a resolution which relates purely to procedural or administrative matter to be decided by way of a show of hands; (iii) fixing the maximum number of proxies appointed by a unitholder to be two; (iv) changing the timing of despatch of circular; (v) defining “business day”; (vi) changing the calculation of the 20% threshold for non-pro rata issue of units; and (vii) clarifying the trustee’s liability for any act or omission of an agent, nominee or custodian acting for the trust.

## 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 and 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.

## Corporate Governance

The Board presently comprises seven members, three of whom are Independent Non-executive Directors ("**INEDs**"). According to the articles of association of the REIT Manager, all Directors (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election. Further, if an INED has held office for more than nine years, his/her continuation of office shall be subject to the approval of unitholders at the next annual general meeting of the unitholders and at every third annual general meeting of the unitholders thereafter.

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.

### RISK MANAGEMENT AND INTERNAL CONTROLS

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's risk management and 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 risk management and internal control systems, and also compliance procedures. Besides, the REIT Manager had adopted the Information Disclosure Controls and Policy in the Compliance Manual which set out the controls and policies in handling and dissemination of inside information (as defined in the Securities and Futures Ordinance (the "**SFO**")).

The Board, through the Audit Committee, conducts reviews on half-yearly basis on the effectiveness of risk management and 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, and training programmes of the REIT Manager's staff who carry out Prosperity REIT's accounting, internal audit and financial reporting functions.

The Board is of the view that effective risk management and internal control systems are in place.

# Corporate Governance

## 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 the effectiveness of financial reporting system, risk management and internal control systems and the internal audit function.

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 also established 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.

## DESIGNATED (FINANCE) COMMITTEE

The REIT Manager has also established 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.



## Corporate Governance

### 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 Units Dealing Code has been extended to apply to 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 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 Hong Kong Exchanges and Clearing Limited 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.

# Corporate Governance

## CHANGE OF DIRECTORS' INFORMATION

Subsequent to publication of the Annual Report 2017 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Dr. Chiu was appointed as a Fellow of the Royal Institution of Chartered Surveyors.

## 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.

## CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Wednesday, 29 August 2018 to Thursday, 30 August 2018, 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 Tuesday, 28 August 2018. The payment date of interim distribution will be on Friday, 7 September 2018.

# 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 2018 HK\$	Rental deposit received as at 30 June 2018 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>2</sup>	941,448	500,172
Gama Aviation Hutchison (Hong Kong) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	—	350,188
Hutchison Hain Organic (Hong Kong) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	489,428	260,884
Hutchison Telephone Company Limited	Associated company of a significant holder <sup>1</sup>	Licence of property of Prosperity REIT <sup>5</sup>	38,400	20,244
Hutchison Whampoa (China) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>6</sup>	3,693	2,310,666
<b>Total</b>			<b>1,472,969</b>	<b>3,442,154</b>

Notes:

1. Significant holder being CK Asset Holdings Limited (“CK Asset”).
2. For Whole of 2/F, Units 302–3 and 306–7, New Treasure Centre.
3. For Units 1102–6, Prosperity Millennia Plaza. Tenancy shall commence on 31 August 2018.
4. For Units 1703A, 1703B and 1704, 9 Chong Yip Street.
5. For installation of micro-transmission station equipment at Prosperity Place.
6. For Whole of 18/F, The Metropolis Tower.

## 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 2018 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	111,789
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	4,280
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	157,370
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	37,936
<b>Total</b>			<b>311,375</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. Significant holder being CK Asset.

# 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 2018 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Property management and lease management fee	5,439,110
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Marketing service fee	5,822,829
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>2</sup>	Carpark lease agency fee	1,633,771
CK Asset Companies <sup>1</sup>	Subsidiaries of a significant holder <sup>2</sup>	Back-office support service fee	29,399
Colliers International (Hong Kong) Limited	Principal Valuer	Leasing commission and consultancy service fee	132,452
<b>Total</b>			<b>13,057,561</b>

Notes:

1. CK Asset Companies include Harbour Plaza North Point Catering Limited and Harbour Plaza Metropolis Limited.
2. Significant holder being CK Asset.

# 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) within 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 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 2018 were as follows:

<b>Name of Connected Person</b>	<b>Amount payable HK\$</b>
Goodwell-Prosperity Property Services Limited	2,346,299
Goodwell Property Management Limited	3,672,306
E-Park Parking Management Limited	281,756
Citybase Property Management Limited	2,505,553
<b>Total</b>	<b>8,805,914</b>

# Connected Party Transactions

## OTHER TRANSACTIONS

The following table sets forth information in relation to services provided by the REIT Manager, the Trustee and the Principal Valuer to Prosperity REIT during the Reporting Period:

<b>Name of Connected Person</b>	<b>Relationship with Prosperity REIT</b>	<b>Nature of the Connected Party Transaction</b>	<b>Expenses for the six months ended 30 June 2018</b> HK\$
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	1,566,731
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	26,411,010
Colliers International (Hong Kong) Limited	Principal Valuer	Valuation fees	99,500
<b>Total</b>			<b>28,077,241</b>

## REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

## Connected Party Transactions

### HOLDING 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 2018		As at
	Number of Units	Percentage of Unitholdings <sup>6</sup>	31 December 2017 Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	11.94%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	6.69%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,079,196,112	73.06%	1,071,404,326
HSBC <sup>3</sup>	11,250	0.0008%	1,217,250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	7,730,940	0.52%	225
Lan Hong Tsung, David <sup>5</sup>	350,000	0.02%	350,000

Notes:

1. 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 2018. Total Win was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 176,328,129 units held by Total Win as at 30 June 2018.

Wide Option Investments Limited ("**Wide Option**") was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 98,883,559 units held by Wide Option as at 30 June 2018.

Therefore, CK Asset was deemed to hold 275,211,688 units as at 30 June 2018, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

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 2018. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.



## Connected Party Transactions

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 2018 and 31 December 2017. The Trustee's directors, senior executives, officers and their associates had no beneficially interest in any units as at 30 June 2018 and 31 December 2017. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 11,250 units and 1,217,250 units as at 30 June 2018 and 31 December 2017 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 2018.
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 2018.
6. The total number of issued units as at 30 June 2018 was 1,477,126,162.

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 2018.

### HOLDINGS OF THE REIT MANAGER, DIRECTORS AND CHIEF EXECUTIVE OF THE REIT MANAGER IN THE UNITS OF PROSPERITY REIT

As at 30 June 2018, 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 Direct Interest	Percentage of Unitholdings <sup>Note</sup>
ARA Asset Management (Prosperity) Limited	7,730,940	0.52%
Lan Hong Tsung, David	350,000	0.02%

Note:

The total number of issued units as at 30 June 2018 was 1,477,126,162.

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 2018.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte.**

**德勤**

**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 26 to 60, which comprises the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders, statement of cash flows and the distribution statement for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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 inquiries, 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  
14 August 2018

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

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
<b>Revenue</b>	4	<b>221,104</b>	222,509
Property management fees		<b>(5,439)</b>	(5,452)
Property operating expenses	6	<b>(39,188)</b>	(40,016)
Total property operating expenses		<b>(44,627)</b>	(45,468)
<b>Net property income</b>		<b>176,477</b>	177,041
Interest income		<b>2,191</b>	2,654
Manager's fee		<b>(26,411)</b>	(25,661)
Trust and other expenses	7	<b>(4,276)</b>	(4,520)
Gain on disposed property company	11(ii)	<b>—</b>	299,695
Change in fair value of investment properties	11	<b>305,454</b>	146,336
Change in fair value of derivative financial instruments		<b>15,449</b>	(31,487)
Finance costs	8	<b>(28,532)</b>	(35,089)
<b>Profit before taxation and transactions with unitholders</b>		<b>440,352</b>	528,969
Taxation	9	<b>(18,535)</b>	(18,969)
<b>Profit for the period, before transactions with unitholders</b>		<b>421,817</b>	510,000
Distribution to unitholders		<b>(136,263)</b>	(134,096)
<b>Profit for the period, after transactions with unitholders</b>		<b>285,554</b>	375,904
<b>Total comprehensive income for the period, after transactions with unitholders</b>		<b>285,554</b>	375,904
<b>Income available for distribution to unitholders</b>		<b>136,263</b>	134,096
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.29</b>	0.35

# DISTRIBUTION STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June 2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
<b>Profit for the period, before transactions with unitholders</b>	<b>421,817</b>	510,000
<b>Adjustments:</b>		
Manager's fee	25,836	25,093
Gain on disposed property company	—	(299,695)
Change in fair value of investment properties	(305,454)	(146,336)
Change in fair value of derivative financial instruments	(15,449)	31,487
Finance costs	3,963	5,531
Deferred tax	5,550	8,016
<b>Income available for distribution (note (i))</b>	<b>136,263</b>	134,096
<b>Distributions to unitholders:</b>		
For the six months ended 30 June	136,263	134,096
<b>Distribution per unit (HK\$) (note (ii))</b>	<b>0.0920</b>	0.0915

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\$25,836,000 (2017: HK\$25,093,000) out of the total manager's fee of HK\$26,411,000 (2017: HK\$25,661,000) (the difference of HK\$575,000 (2017: HK\$568,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$305,454,000 (2017: HK\$146,336,000), gain on fair value change of derivative financial instruments of HK\$15,449,000 (2017: a loss of HK\$31,487,000), and a gain on disposed property company of nil (2017: HK\$299,695,000);
- (c) adjustment in respect of the difference between the accounting finance costs of HK\$28,532,000 (2017: HK\$35,089,000) and the cash finance costs of HK\$24,569,000 (2017: HK\$29,558,000); and
- (d) deferred tax provision of HK\$5,550,000 (2017: HK\$8,016,000).
- (ii) The distribution per unit of HK\$0.0920 (2017: HK\$0.0915) is calculated based on Prosperity REIT's income available for distribution of HK\$136,263,000 (2017: HK\$134,096,000) over 1,481,179,523 units (2017: 1,465,548,870 units), representing units in issue as at 30 June 2018 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 2018

	Notes	30 June 2018 HK\$000 (unaudited)	31 December 2017 HK\$000 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	10,800,000	10,490,000
Derivative financial instruments	13	30,902	20,341
		<b>10,830,902</b>	10,510,341
<b>Current assets</b>			
Derivative financial instruments	13	4,877	1,528
Trade and other receivables	12	9,947	8,667
Bank balances and cash		379,510	363,451
<b>Total current assets</b>		<b>394,334</b>	373,646
<b>Total assets</b>		<b>11,225,236</b>	10,883,987
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	13	—	1,539
Term loans	14	2,307,908	2,303,945
Deferred tax liabilities		192,219	186,669
<b>Total non-current liabilities, excluding net assets attributable to unitholders</b>		<b>2,500,127</b>	2,492,153
<b>Current liabilities</b>			
Trade and other payables	15	186,393	185,775
Amounts due to related companies	16	8,806	9,481
Provision for taxation		15,261	2,152
Manager's fee payable		13,274	13,246
Distribution payable		136,263	127,437
<b>Total current liabilities</b>		<b>359,997</b>	338,091
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,860,124</b>	2,830,244
<b>Net assets attributable to unitholders</b>		<b>8,365,112</b>	8,053,743
<b>Units in issue ('000)</b>	17	<b>1,477,126</b>	1,469,395
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	18	<b>5.66</b>	5.48

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the six months ended 30 June 2018

	<b>Issued units</b> HK\$'000 (unaudited)	<b>Unit issue costs</b> HK\$'000 (unaudited)	<b>Retained profits</b> HK\$'000 (unaudited)	<b>Total</b> HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2018 (audited)	<b>3,142,543</b>	<b>(91,278)</b>	<b>5,002,478</b>	<b>8,053,743</b>
<b>OPERATIONS</b>				
Profit for the period, before transactions with unitholders	—	—	<b>421,817</b>	<b>421,817</b>
Distribution paid and payable	—	—	<b>(136,263)</b>	<b>(136,263)</b>
Total comprehensive income for the period, after transaction with unitholders	—	—	<b>285,554</b>	<b>285,554</b>
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
Units issued to REIT Manager	<b>25,815</b>	—	—	<b>25,815</b>
Net assets attributable to unitholders as at 30 June 2018	<b>3,168,358</b>	<b>(91,278)</b>	<b>5,288,032</b>	<b>8,365,112</b>

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

For the six months ended 30 June 2017

	Issued units HK\$'000 (unaudited)	Unit issue costs HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2017 (audited)	3,091,413	(91,278)	4,515,586	7,515,721
<b>OPERATIONS</b>				
Profit for the period, before transactions with unitholders	—	—	510,000	510,000
Distribution paid and payable	—	—	(134,096)	(134,096)
Total comprehensive income for the period, after transaction with unitholders	—	—	375,904	375,904
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
Units issued to REIT Manager	25,815	—	—	25,815
Net assets attributable to unitholders as at 30 June 2017	3,117,228	(91,278)	4,891,490	7,917,440



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>170,420</b>	175,550
Investing activities:		
New bank deposit with maturity over three months	—	(50,000)
Interest received	<b>2,191</b>	2,654
Additional expenditure to investment properties	<b>(4,546)</b>	(5,664)
Net proceeds from disposal of a property company	—	871,351
Net cash (used in)/from investing activities	<b>(2,355)</b>	818,341
Financing activities:		
Repayment of secured revolving loan	—	(20,000)
Interest payment of term loans and revolving loan	<b>(24,569)</b>	(29,558)
Distribution to unitholders	<b>(127,437)</b>	(126,990)
Net cash used in financing activities	<b>(152,006)</b>	(176,548)
Net increase in cash and cash equivalents	<b>16,059</b>	817,343
Cash and cash equivalents at beginning of the period	<b>363,451</b>	73,890
<b>Cash and cash equivalents at end of period, represented by bank balances and cash</b>	<b>379,510</b>	891,233

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as 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 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, Prosperity REIT 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 2018

## 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.

Other than changes in accounting policies resulting from application of Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### Application of new and revised HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases within the scope of HKAS 17 *Leases*.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. In accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

#### 3.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers (Continued)

#### 3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group's performance in transferring control of goods or services.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers (Continued)

#### *3.1.2 Summary of effects arising from initial application of HKFRS 15*

The Group invests in a portfolio of commercial properties in Hong Kong for earning stable rental income under operating leases. It receives rental income, car park income and rental related income from tenants. HKFRS 15 does not apply to the leasing component of rental from investment properties which is under the scope of HKAS 17 *Leases*. Rental related income (e.g. management fee income and air conditioning income) are non-lease components which fall within HKFRS 15. Each of these incomes has a stand-alone selling price for the services which are observable under the lease contracts and they are recognised over-time as revenue only when the performance obligation is satisfied.

The REIT Manager of the Company reviewed and assessed the Group's revenue as at 1 January 2018 based on the facts and circumstances that existed at that date. There would be no material impact on initial application of HKFRS 15.

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments (Continued)

#### 3.2.1 Key changes in accounting policies resulting from application of HKFRS 9

##### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

##### *Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is separately disclosed in the condensed statement of profit or loss and other comprehensive income.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments (Continued)

#### 3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

##### *Classification and measurement of financial assets (Continued)*

##### *Financial assets at fair value through profit or loss ("FVTPL") (Continued)*

The REIT Manager reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. There would be no impact on initial application of HKFRS 9 as all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

##### *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments (Continued)

#### 3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

##### *Impairment under ECL model (Continued)*

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. When the financial instrument is determined to have low credit risk, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition.

##### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments (Continued)

#### 3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

##### *Impairment under ECL model (Continued)*

##### *Significant increase in credit risk (Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments and the related amendments (Continued)

#### 3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

##### *Impairment under ECL model (Continued)*

##### *Significant increase in credit risk (Continued)*

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the REIT Manager of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impact on impairment was noted at the date of initial application, 1 January 2018.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

Except as disclosed above, the application of revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed financial statements.

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

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### HKFRS 16 Leases

The Group currently considers refundable rental deposits received of HK\$137,519,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The REIT Manager anticipates that the application of other new and revised HKFRSs and interpretations in the future will not have a material effect on the Group's condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 4 REVENUE

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Gross rental from investment properties		
Rental income	180,503	182,389
Car park income	14,835	13,717
	195,338	196,106
Rental related income (note)	25,766	26,403
	221,104	222,509

Note: Rental related income, which consist of payments in respect of the operation of the properties in Hong Kong which are payable by the tenants, are recognised over time as income when the services and facilities are provided. The Group billed a fixed amount for each month according to the term of the relevant lease.

## 5 SEGMENT INFORMATION

During the reporting period, Prosperity REIT invested in seven (2017: eight) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, 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 2018

## 5 SEGMENT INFORMATION (Continued)

Six months ended 30 June 2018 (unaudited)

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip Street HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Centre (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	62,800	46,733	19,897	37,376	26,295	19,943	8,060	221,104
Segment profit	50,414	38,878	15,506	29,909	21,191	14,737	5,842	176,477
Interest income								2,191
Manager's fee								(26,411)
Trust and other expenses								(4,276)
Change in fair value of investment properties								305,454
Change in fair value of derivative financial instruments								15,449
Finance costs								(28,532)
Profit before taxation and transactions with unitholders								440,352

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 5 SEGMENT INFORMATION (Continued)

### Six months ended 30 June 2017 (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	66,769	44,687	19,569	5,756	34,086	24,300	19,669	7,673	222,509
Segment profit	55,339	37,002	15,560	4,880	25,513	17,837	15,176	5,734	177,041
Interest income									2,654
Manager's fee									(25,661)
Trust and other expenses									(4,520)
Gain on disposed property company									299,695
Change in fair value of investment properties									146,336
Change in fair value of derivative financial instruments									(31,487)
Finance costs									(35,089)
Profit before taxation and transactions with unitholders									528,969

\* The Harbourfront Landmark Property was disposed on 3 March 2017 as set out in note 11(ii)



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 6 PROPERTY OPERATING EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Building management expenses	<b>18,616</b>	19,348
Utilities	<b>2,398</b>	2,535
Car park operating expenses	<b>3,992</b>	3,692
Marketing service fee	<b>5,823</b>	5,523
Lease commission	<b>1,921</b>	2,931
Repairs and maintenance	<b>3,583</b>	2,798
Valuation fees (paid to principal valuer)	<b>100</b>	107
Audit fee	<b>630</b>	624
Other charges	<b>2,125</b>	2,458
	<b>39,188</b>	40,016

## 7 TRUST AND OTHER EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Audit fee	<b>120</b>	130
Back-office support service fee	<b>29</b>	27
Bank charges	<b>694</b>	852
Legal and professional fees	<b>287</b>	435
Public relations and related expenses	<b>115</b>	162
Registrar fee	<b>300</b>	300
Trust administrative expenses	<b>1,164</b>	1,066
Trustee's fee	<b>1,567</b>	1,548
	<b>4,276</b>	4,520

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 8 FINANCE COSTS

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Interest expense on:		
Secured term loan	—	23,150
Unsecured term loans	26,492	7,405
Equalisation of interest expense through interest rate swaps	2,040	4,522
	28,532	35,077
Secured revolving loan	—	12
	28,532	35,089

## 9 TAXATION

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current tax	12,985	10,953
Deferred tax	5,550	8,016
	18,535	18,969

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 2018

## 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\$421,817,000 (2017: HK\$510,000,000) by the weighted average of 1,477,097,755 (2017: 1,461,739,065) 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

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Fair value at the beginning of the period/year	<b>10,490,000</b>	10,183,000
Additional expenditure	<b>4,546</b>	11,303
Change in fair value of investment properties	<b>305,454</b>	295,697
Fair value at end of the period/year	<b>10,800,000</b>	10,490,000

- (i) All of the Group's property interests in properties are located in Hong Kong to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

In estimating the fair value of investment properties, it is the Group's policy to engage an independent qualified external valuer to perform the valuation. The REIT Manager works closely with the independent 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 2018

## 11 INVESTMENT PROPERTIES (Continued)

(i) (Continued)

On 30 June 2018 and 31 December 2017, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited. The firm is an independent qualified external 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, falls under level 3 of the fair value hierarchy, was arrived at using the income capitalisation method cross-referenced with the direct comparison method. Income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the investment properties from the date of valuation at appropriate investment yields to arrive at the capital value and with appropriate adjustments. The estimated net property yield is based on the monthly net rental income for June 2018 and average net monthly car parking income for the period of January 2018 to June 2018. The direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased and generally located in the surrounding areas or in another market which is comparable to the properties and with appropriate adjustments.

The adopted capitalisation rates in the valuation range from 3.6% to 4.2% (2017: 3.6% to 4.2%) for capitalization of the current passing rental income over the existing lease term and 3.6% to 4.2% (2017: 3.6% to 4.2%) for potential future reversionary rental income. The capitalisation rates 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 qualified external valuer.

- (ii) On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager (in its capacity as manager of Prosperity REIT) entered into a share purchase agreement with an independent third party in respect of the sale of the Harbourfront Landmark Property and the disposal was completed on 3 March 2017 for a cash consideration of HK\$877,378,000 (representing to the gross consideration of HK\$885,741,000 minus the adjusted net asset value of Harbour Champ Limited of HK\$8,363,000) as at completion date of the disposal. The disposal resulted in a gain of approximately HK\$299,695,000, mainly representing fair value change of investment property as a result of such transaction.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 11 INVESTMENT PROPERTIES (Continued)

(ii) (Continued)

Analysis of assets and liabilities over which control was lost:

	<b>Upon disposal</b> HK\$000
Investment properties	594,000
Trade and other receivables	240
Trade and other payables	(10,141)
Deferred tax liabilities	(12,443)
<b>Net assets disposed of</b>	<b>571,656</b>

Gain on fair value change of investment property through the disposal of a property company is determined as follows:

	HK\$000
Consideration received	877,378
Less: Transaction cost incurred	(1,598)
Less: Divestment fee	(4,429)
Less: Net assets disposed of	(571,656)
	<b>299,695</b>

Net cash inflow arising on disposal is as follows:

	HK\$000
<b>Net proceeds from disposal</b>	<b>871,351</b>

During the period ended 30 June 2017, HK\$5,756,000 out of the Group's revenue and HK\$2,690,000 out of the Group's profit were attributable to the subsidiary disposed.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 12 TRADE AND OTHER RECEIVABLES

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Trade receivables	427	561
Less: allowance for doubtful debts	(42)	(129)
	<b>385</b>	432
Deposits, prepayments and other receivables	<b>9,562</b>	8,235
	<b>9,947</b>	8,667

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 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
0 day-1 month	142	178
2-3 months	223	254
Over 3 months	20	—
	<b>385</b>	432

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Reflected on condensed consolidated statement of financial position based on remaining contractual maturity as:		
Non-current liabilities	—	(1,539)
Non-current assets	<b>30,902</b>	20,341
Current assets	<b>4,877</b>	1,528
	<b>35,779</b>	20,330

The Group uses interest rate swaps 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:

Contracts with total notional amount of HK\$2,116,000,000 (31 December 2017: HK\$2,116,000,000) as at 30 June 2018 will mature from December 2018 to September 2022 (31 December 2017: December 2018 to September 2022). These contracts have fixed interest payments at rates ranging from 0.455% to 1.483% (31 December 2017: 0.455% to 1.483%) per annum and have floating interest receipts at three months HIBOR or 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 amounting to a gain of HK\$15,449,000 is recognised in the profit or loss for the six months ended 30 June 2018 (six months ended 30 June 2017: a loss of HK\$31,487,000).

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.

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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 14 BORROWINGS

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Unsecured term loans	<b>2,340,000</b>	2,340,000
Bank facility origination fees	<b>(32,092)</b>	(36,055)
	<b>2,307,908</b>	2,303,945
Carrying amount repayable: Within a period of more than one year but not exceeding five years	<b>2,307,908</b>	2,303,945
	<b>2,307,908</b>	2,303,945

Details of the terms and conditions of the facilities as at 30 June 2018 and 31 December 2017 are as follows:

- (i) HK\$1,540,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+0.82% per annum and is repayable in full on 30 November 2022;
- (ii) HK\$430,000,000 unsecured revolving loan bears interest at floating interest rate of HIBOR+0.82% per annum and is repayable on demand; and
- (iii) HK\$800,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.05% per annum and is repayable in full on 31 August 2021.

Prosperity REIT has provided guarantees 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.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 15 TRADE AND OTHER PAYABLES

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
Trade payables	1,700	1,495
Tenants' deposits		
Outside parties	134,077	138,356
Related parties	3,442	779
Rental received in advance		
Outside parties	4,885	3,589
Other payables	42,289	41,556
	<b>186,393</b>	<b>185,775</b>

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

	<b>30 June 2018</b> <b>HK\$'000</b> <b>(unaudited)</b>	31 December 2017 HK\$'000 (audited)
0 day–1 month	751	473
2–3 months	505	357
Over 3 months	444	665
	<b>1,700</b>	<b>1,495</b>

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\$85,683,721 as at 30 June 2018 (31 December 2017: HK\$83,245,000).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 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.

## 17 UNITS IN ISSUE

	Number of units	HK\$'000
Balance as at 1 January 2017	1,453,669,230	3,091,413
Payment of Manager's base fee and variable fee through issuance of new units during the year	15,726,217	51,130
Balance as at 31 December 2017	1,469,395,447	3,142,543
Payment of Manager's base fee and variable fee through issuance of new units during the period	7,730,715	25,815
Balance as at 30 June 2018	1,477,126,162	3,168,358

Subsequent to the end of the reporting period, 4,053,361 units (31 December 2017: 3,741,813 units) at HK\$3.2031 (31 December 2017: HK\$3.4642) per unit were issued to the REIT Manager as settlement of base fee and variable fee for the period from 1 April 2018 to 30 June 2018. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 30 June 2018 was HK\$3.18 (31 December 2017: HK\$3.34).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 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 and the total number of 1,477,126,162 units in issue as at 30 June 2018 (31 December 2017: 1,469,395,447 units).

## 19 MAJOR NON-CASH TRANSACTION

During the period, the REIT Manager earned manager's fee of HK\$26,411,000 (2017: manager's fee of HK\$25,661,000) of which HK\$25,836,000 (2017: HK\$25,093,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$12,853,000 (2017: HK\$12,538,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$12,983,000 (31 December 2017: HK\$12,962,000) included in manager's fee payable would be paid in units subsequent to the period end.

## 20 NET CURRENT ASSETS

At the end of the reporting period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$34,337,000 (31 December 2017: HK\$35,555,000).

## 21 TOTAL ASSETS LESS CURRENT LIABILITIES

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$10,865,239,000 (31 December 2017: HK\$10,545,896,000).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 22 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	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Rent and rental related income from			
Goodwell Property Management Limited	(a)	941	892
Hutchison Hain Organic (Hong Kong) Limited	(b)	489	485
Hutchison Telephone Company Limited	(b)	38	42
Hutchison Whampoa (China) Limited	(b)	4	—
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	1,634	1,511
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	5,439	5,452
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	5,823	5,523
Lease commission and consultancy service fee			
Jones Lang LaSalle Limited	(c)	—	144
Colliers International (Hong Kong) Limited	(c)	132	—
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	1,567	1,548
Manager's fee			
ARA Asset Management (Prosperity) Limited	(e)	26,411	25,661
Divestment fee			
ARA Asset Management (Prosperity) Limited	(e)	—	4,429
Back-office support service fee			
CK Asset Companies	(a)	29	27

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Balances with connected and related parties are as follows:

		30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)
Amount due to			
Citybase Property Management Limited	(a)	2,506	941
Goodwell-Prosperity Property Services Limited	(a)	2,346	4,267
Goodwell Property Management Limited	(a)	3,672	3,738
E-Park Parking Management Limited	(a)	282	535
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	500	500
Gama Aviation Hutchison (Hong Kong) Limited	(b)	350	—
Hutchison Hain Organic (Hong Kong) Limited	(b)	261	259
Hutchison Telephone Company Limited	(b)	20	20
Hutchison Whampoa (China) Limited	(b)	2,311	—

Notes:

- (a) These companies were subsidiaries of CK Asset Holdings Limited ("CK Asset"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.
- (b) These companies were associated companies (as defined in the REIT Code) of CK Asset.
- (c) Colliers International (Hong Kong) Limited is the principal valuer of investment properties for the period ended 30 June 2018 (for the period ended 30 June 2017: Jones Lang LaSalle Limited),
- (d) HSBC Institutional Trust Services (Asia) Limited is the trustee of Prosperity REIT.
- (e) ARA Asset Management (Prosperity) Limited is the management company of Prosperity REIT.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

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 CK Asset group technically constitutes a contract between the Group and CK Asset group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CK Asset, 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\$311,000 (2017: HK\$344,000).

# PERFORMANCE TABLE

## RESULTS ANALYSIS

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	221,104	222,509
Net property income	176,477	177,041
Profit for the period, before transactions with unitholders	421,817	510,000
Income available for distribution	136,263	134,096
Basic earnings per unit (HK\$)	0.29	0.35
Distribution per unit (HK\$)	0.0920	0.0915

## MAJOR ASSETS AND LIABILITIES

	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)
Investment properties	10,800,000	10,490,000
Borrowings, excluding bank facility origination fees	(2,340,000)	(2,340,000)
Net assets attributable to unitholders	8,365,112	8,053,743
Net asset value per unit (HK\$)	5.66	5.48

# Performance Table

## OTHER INFORMATION

	30 June 2018	31 December 2017
The highest traded price during the period/year (HK\$)	3.50	3.46
The highest discount of the traded price to net asset value	(38.2%)	(36.9%)
The lowest traded price during the period/year (HK\$)	3.17	3.06
The lowest discount of the traded price to net asset value	(44.0%)	(44.2%)
The net yield per unit based on market price at the end of period/year <sup>1</sup>	5.8%	5.3%

<sup>1</sup> Annualised yield for the six months ended 30 June 2018 is based on the distribution per unit of HK\$0.0920 and the closing unit price of HK\$3.18 as at 30 June 2018. For the year ended 31 December 2017, the yield is based on the distribution per unit of HK\$0.1780 and the closing unit price of HK\$3.34 as at 31 December 2017.



# INVESTMENT PROPERTIES PORTFOLIO

As at 30 June 2018

Property	Type	Lease term	Lease expiry date	Location	Valuation 30 June 2018 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,290
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,230
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,130
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,815
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,080
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	905
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	350
<b>Total</b>					<b>10,800</b>

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

Colliers International (Hong Kong) Limited

## PRINCIPAL BANKERS

DBS Bank Limited  
Sumitomo Mitsui Banking Corporation  
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

# Corporate Information

## 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

Tel: +852 2169 0928  
Fax: +852 2169 0968  
Email: [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk)

## WEBSITE

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

## KEY DATES

Interim Results Announcement  
14 August 2018

Closure of Register of Unitholders  
for interim distribution  
29 August 2018 to  
30 August 2018 (both days inclusive)

Payment of interim distribution  
7 September 2018

*The interim report 2018 (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 Hong Kong Exchanges and Clearing 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.*

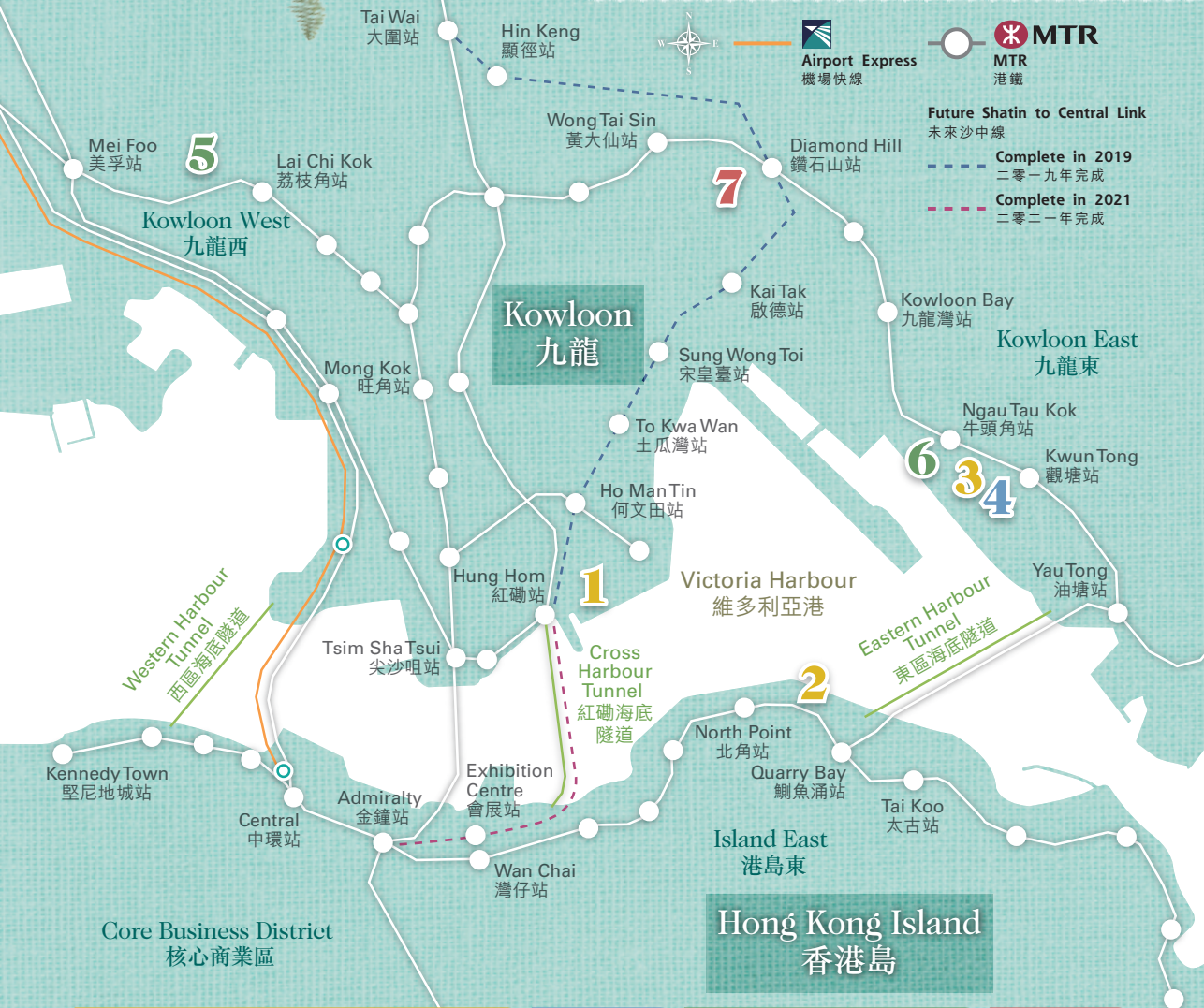
*Unitholders may at any time change the choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) and/or language of Prosperity REIT's Corporate Communication by reasonable prior notice in writing to Prosperity REIT's unit registrar, Computershare Hong 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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# PORTFOLIO MAP 物業分佈圖



## GRADE A OFFICE 甲級寫字樓



1 The Metropolis Tower  
都會大廈

2 Prosperity Millennium 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 Prosperity Place  
泓富廣場

## INDUSTRIAL / OFFICE 工商綜合物業



5 Trendy Centre  
潮流工貿中心



6 Prosperity Center  
(portion)  
創富中心(部分)

## INDUSTRIAL 工業物業



7 New Treasure Centre  
(portion)  
新寶中心(部分)



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



Stock Code 股份代號 : 808

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

