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Prosperity Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 808)

Managed by

ESR Asset Management (Prosperity) Limited

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2024

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

The REIT Manager would like to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2024 (the “Reporting Year”) together with comparative figures for the corresponding year in 2023 as follows:

Performance Highlights

<u>Distribution</u>	<u>Year ended 31 Dec 2024</u>	<u>Year ended 31 Dec 2023</u>	<u>Percentage change Increase/(Decrease)</u>
Income available for distribution	HK\$185.4 million	HK\$214.7 million	(13.6%)
Distribution per unit (“DPU”)	HK\$0.1198	HK\$0.1409	(15.0%)

<u>Operation data</u>	<u>Year ended 31 Dec 2024</u>	<u>Year ended 31 Dec 2023</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$425.4 million	HK\$437.3 million	(2.7%)
Net property income	HK\$323.3 million	HK\$336.4 million	(3.9%)
Occupancy rate (as at 31 Dec)	94.2%	95.9%	(1.7%) ²
Tenant retention rate	71.8%	73.1%	(1.3%) ²
Cost-to-revenue ratio	24.0%	23.1%	0.9% ²

<u>Key financial figures</u>	<u>As at 31 Dec 2024</u>	<u>As at 31 Dec 2023</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$4.31	HK\$4.56	(5.5%)
Property valuation	HK\$9,547 million	HK\$9,703 million	(1.6%)
Gearing ratio ¹	25.1%	24.2%	0.9% ²

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

² Absolute change.

Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2024. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

Business Overview

Despite the challenging business environment in Hong Kong, Prosperity REIT delivered stable revenue of \$425.4 million and net property income of \$323.3 million for the Reporting Year. Distributable income and DPU declined mainly due to the rise in finance costs, given that Hong Kong Interbank Offered Rate (“**HIBOR**”) stayed above 4% for most of the year. Property valuation decreased slightly by 1.6% year-on-year to HK\$9,547 million.

Our Unitholders will receive a DPU of HK\$0.0560 for the second half of the year, representing a total DPU of HK\$0.1198 for the full year ended 31 December 2024.

Market Review

During the year, global economies continued to contend with high interest rates, geopolitical tensions and trade conflicts.

In US, the Fed lowered rates by a cumulative 100bps to the range of 4.25% – 4.50% but signalled that there will be fewer cuts ahead. Inflation has mostly receded. GDP grew by 2.8% in 2024.

The Mainland recorded an annual economic growth of 5.0%. A series of fiscal and monetary stimulus measures were launched to stabilize property market, boost consumption and restore market sentiment.

Hong Kong economy expanded by 2.5% annually, supported by a recovery in exports and rebound in tourist visits. However, economic recovery is hindered by the uncertain external environment, heightened finance cost, change in consumer behaviour and tepid property market.

Operations Review

Hong Kong office market continued to be under pressure due to subdued leasing demand and surge in supply of vacant office space. Corporates remain cautious amid prevailing economic uncertainties.

The relentless drive to upgrade our buildings with more green and energy-efficient facilities raises the marketing competitiveness. Leveraging on the geographic proximity to key public transport links and the diversified mix of property types, Prosperity REIT recorded a solid overall occupancy rate of 94.2%.

Sustainability

In 2024, we completed a strategic review of our sustainability roadmap through 2030 and committed to Science Based Targets initiative (“SBTi”) near-term and net-zero emissions reduction targets. As the first Hong Kong REIT to achieve 100% sustainability-linked financing, we have taken a step further by securing the first Green and Transition Loan in Hong Kong’s real estate industry.

Our whole portfolio is green-certified, with Prosperity Place being the second building in our portfolio, following The Metropolis Tower, to attain the highest “Platinum” rating under the BEAM Plus Comprehensive Scheme. Additionally, we have achieved the highest 5-Star rating in the 2024 Global Real Estate Sustainability Benchmark (“GRESB”) assessment for the third consecutive year and garnered two prestigious awards at the HKQAA Hong Kong Green and Sustainable Finance Awards 2024.

Prospects

The International Monetary Fund has projected steady global economic growth of 3.3% in 2025. Meanwhile, Hong Kong’s 2025 GDP is expected to grow in the range of 2.0% to 3.0%. Although the Mainland’s supportive measures will help Hong Kong’s economy, the escalation of tariffs under the US government casts uncertainty. While the Fed has commenced its rate cut cycle, interest rates could stay high for longer.

Despite the ongoing challenges, Prosperity REIT is well-positioned to capitalize on its unique portfolio strategically located along Tuen Ma Line, with our flagship asset, The Metropolis Tower, adjacent to Hung Hom interchange station. We will maintain flexible leasing strategies to cope with different market conditions.

Acknowledgements

I would like to express my heartfelt gratitude to our staff, tenants, service providers and business partners, all of whom have been instrumental in helping us build resilience and navigate through uncertain times.

I am especially thankful to my fellow Board members and the management team for their unwavering commitment and exceptional contributions.

Finally, I would like to extend my deepest appreciation to all our Unitholders. Your steadfast support and trust in Prosperity REIT are vital.

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

Hong Kong, 21 March 2025

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

As at 31 December 2024, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 31 December 2024, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 31 December 2024, was as follows:

	Location	Gross rentable area <i>sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ million</i>	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	2,622	99.3%
Prosperity Millennia Plaza	North Point	217,955	43	1,996	88.9%
9 Chong Yip Street	Kwun Tong	136,595	68	917	98.0%
Commercial					
Prosperity Place	Kwun Tong	240,000	83	1,700	92.7%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	1,105	88.0%
Prosperity Center (portion)	Kwun Tong	149,253	105	851	96.6%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	356	98.5%
Total		1,275,153	498	9,547	94.2%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 94.2% as at 31 December 2024, reflecting the effectiveness of the leasing strategies deployed. With efficient streamlining of operations, the cost-to-revenue ratio was maintained at a steady level of 24.0%.

Investment Review

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

Asset Enhancement

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

The Metropolis Tower

The renovation of passenger lift lobby and corridor on typical floors at The Metropolis Tower has been completed. This facelifting has incorporated prestigious design which created a warm and hospitable indoor environment for our tenants. Moreover, there are a total of 3 chiller sets in the building. After the replacement of 1 chiller set in 2023, we continue to replace another set with energy-efficient model in 2024 and achieved notable energy cost savings. Considering higher maintenance costs for the remaining aging chiller set and the upcoming increment of electricity tariff, we shall further replace the last set of chiller in 2025 in order to upkeep a reliable and efficient air-conditioning provision.

Prosperity Millennia Plaza

The renovation of passenger lift lobby and corridor on typical floors at Prosperity Millennia Plaza has been continued. This facelifting has brought the environment of the common areas in line with the G/F lobby design and to stay competitive with the high standard new office buildings in close vicinity.

Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	91,276	30,231	121,507	94,387
Prosperity Millennia Plaza	63,956	17,120	81,076	61,793
9 Chong Yip Street	33,007	5,495	38,502	29,256
Commercial				
Prosperity Place	64,484	10,177	74,661	56,713
Industrial/Office				
Trendy Centre	43,955	7,865	51,820	38,081
Prosperity Center (portion)	34,931	4,430	39,361	29,507
Industrial				
New Treasure Centre (portion)	15,837	2,604	18,441	13,570
Total	347,446	77,922	425,368	323,307

Revenue

During the Reporting Year, revenue decreased to HK\$425.4 million, being HK\$11.9 million or 2.7% lower than that of 2023. The decrease was mainly due to the pressure from the vacancy and rental levels at Prosperity Millennia Plaza and Trendy Centre. Part of the negative impact was mitigated by the increase in rental related income, as well as improved occupancy in The Metropolis Tower, and positive rental reversion registered in certain properties.

Net Property Income

For the Reporting Year, net property income was HK\$323.3 million, being HK\$13.1 million or 3.9% lower than that of 2023 as a result of the decrease in revenue. The cost-to-revenue ratio was 24.0%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$185.4 million, representing a total DPU of HK\$0.1198. The distributable income for the Reporting Year is calculated by the REIT Manager representing the consolidated profit or loss after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$9.1 million (equivalent to HK\$0.0059 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.

The distributable income for the half year from 1 July 2024 to 31 December 2024 is HK\$87.2 million, equivalent to a DPU of HK\$0.0560. The interim DPU from 1 January 2024 to 30 June 2024 paid on 16 September 2024 was HK\$0.0638. The total DPU for the Reporting Year is HK\$0.1198, which represents a distribution yield of 9.7%³. The total DPU decreased by 15.0% year-on-year.

The distribution for the half year from 1 July 2024 to 31 December 2024 will be paid on 23 April 2025 (Wednesday).

Liquidity and Financing

As at 31 December 2024, Prosperity REIT had facilities in aggregate of HK\$2,830 million, comprising:

- (i) A HK\$800 million 5-year unsecured sustainability-linked term loan, which will mature in August 2026 (the “**HK\$800 Million Facility**”);
- (ii) A HK\$1,970 million unsecured sustainability-linked term loan (the “**HK\$1,970 Million Facilities**”), comprising of (a) HK\$1,200 million 3-year term loan facility and revolving credit facility and (b) HK\$770 million 5-year term loan facility and revolving credit facility, which will mature in November 2025 and November 2027 respectively; and
- (iii) A HK\$60 million unsecured green and transition loan (the “**HK\$60 Million Green and Transition Loan**”), which will mature in September 2029.

³ Based on Prosperity REIT's closing unit price of HK\$1.24 as at 31 December 2024.

As at 31 December 2024, total facilities drawn was HK\$2,400 million and the revolving credit facilities of HK\$20 million were drawn. Total facilities bear interest at Hong Kong Interbank Offered Rate (“**HIBOR**”) plus a margin ranging from 1.04% to 1.35% (31 December 2023: HIBOR plus a margin ranging from 1.04% to 1.28%) per annum. Interest margins for (i) and (ii) above are linked to the sustainability performance of Prosperity REIT, which may be reduced depending on the extent of pre-determined key performance indicators being met.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into interest rate swap to mitigate the impact of interest rate fluctuations. As at 31 December 2024, the interest costs for approximately 39% (31 December 2023: 55%) of Prosperity REIT’s outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT’s total assets was 25.1% as at 31 December 2024 (31 December 2023: 24.2%), whereas the total liabilities of Prosperity REIT as a percentage of Prosperity REIT’s total assets was 30.7% as at 31 December 2024 (31 December 2023: 29.8%).

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

Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT’s portfolio recorded an investment property revaluation loss of HK\$177.9 million, based on a professional valuation performed by an independent qualified external valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

	31 December 2024 <i>HK\$'000</i>	31 December 2023 <i>HK\$'000</i>
Fair value at the beginning of the year	9,703,000	9,801,000
Additional expenditure	21,858	22,951
Change in fair value of investment properties	(177,858)	(120,951)
Fair value at the end of the year	9,547,000	9,703,000

Charges on Assets

As at 31 December 2024, all bank loan facilities of Prosperity REIT are unsecured. None of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities, the HK\$800 Million Facility and the HK\$60 Million Green and Transition Loan.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 5,412,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from 9 April 2025 (Wednesday) to 10 April 2025 (Thursday), both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 8 April 2025 (Tuesday). The payment date of the final distribution will be on 23 April 2025 (Wednesday).

REVIEW OF FINAL RESULTS

The final results of Prosperity REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 31 December 2024.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before 30 April 2025 (Wednesday).

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on 28 May 2025 (Wednesday). Notice of the annual general meeting will be published and issued to unitholders in due course.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2024

	<i>Notes</i>	<i>2024</i> <i>HK\$'000</i>	<i>2023</i> <i>HK\$'000</i>
Revenue	3	425,368	437,314
Property management fees		(9,562)	(10,011)
Property operating expenses		(92,499)	(90,921)
Total property operating expenses		<u>(102,061)</u>	<u>(100,932)</u>
Net property income		323,307	336,382
Other income		286	1,059
Manager's fee		(48,147)	(49,000)
Trust and other expenses	5	(7,128)	(7,283)
Change in fair value of investment properties		(177,858)	(120,951)
Finance costs, net	6	<u>(132,572)</u>	<u>(138,725)</u>
(Loss)/profit before taxation and transactions with unitholders		(42,112)	21,482
Taxation	7	<u>(32,524)</u>	<u>(27,155)</u>
Loss for the year, before transactions with unitholders		(74,636)	(5,673)
Distribution to unitholders		<u>(185,415)</u>	<u>(214,662)</u>
Loss for the year, after transactions with unitholders		(260,051)	(220,335)
Total comprehensive expense for the year, after transactions with unitholders		<u>(260,051)</u>	<u>(220,335)</u>
Income available for distribution to unitholders		<u>185,415</u>	<u>214,662</u>
Basic loss per unit (HK\$)	8	<u>(0.049)</u>	<u>(0.004)</u>

Distribution Statement

For the year ended 31 December 2024

	2024 HK\$'000	2023 HK\$'000
Loss for the year, before transactions with unitholders	(74,636)	(5,673)
Adjustments:		
Manager's fee	47,151	47,984
Change in fair value of investment properties	177,858	120,951
Change in fair value of derivative financial instruments	12,512	40,059
Non-cash finance costs	9,097	8,985
Deferred tax	13,433	2,356
	<hr/>	<hr/>
Income available for distribution (note (i))	185,415	214,662
Distributions to unitholders:		
HK\$0.0638 (2023: HK\$0.0745) per unit for the six months ended 30 June (note (ii))	98,178	113,771
HK\$0.0560 (2023: HK\$0.0664) per unit for the six months ended 31 December (note (iii))	87,237	100,891
	<hr/>	<hr/>
	185,415	214,662
	<hr/>	<hr/>
Total distribution per unit (HK\$)	0.1198	0.1409
	<hr/>	<hr/>

Notes:

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

These adjustments for the current year comprise:

- (a) manager's fees paid and payable in units of HK\$47,151,000 (2023: HK\$47,984,000) out of the total manager's fee of HK\$48,147,000 (2023: HK\$49,000,000) (the differences of HK\$996,000 (2023: HK\$1,016,000) are paid in cash);
- (b) decrease in fair value of investment properties of HK\$177,858,000 (2023: HK\$120,951,000) and decrease in fair value of derivative financial instruments of HK\$12,512,000 (2023: HK\$40,059,000);

- (c) non-cash finance costs of HK\$9,097,000 (2023: HK\$8,985,000), are derived from the finance costs of HK\$132,572,000 (2023: HK\$138,725,000), less decrease in fair value of derivative financial instruments of HK\$12,512,000 (2023: HK\$40,059,000) and less the cash finance costs of HK\$110,963,000 (2023: HK\$89,681,000); and
- (d) deferred tax provision of HK\$13,433,000 (2023: HK\$2,356,000).
- (ii) The distribution per unit of HK\$0.0638 for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$0.0745) is calculated based on Prosperity REIT's income available for distribution of HK\$98,178,000 (six months ended 30 June 2023: HK\$113,771,000) over 1,538,797,624 units (30 June 2023: 1,527,055,457 units), representing units in issue as at 30 June 2024 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of the relevant distribution period. The distribution was paid to unitholders on 16 September 2024.
- (iii) The distribution per unit of HK\$0.0560 for the six months ended 31 December 2024 (six months ended 31 December 2023: HK\$0.0664) is calculated based on Prosperity REIT's income available for distribution of HK\$87,237,000 (six months ended 31 December 2023: HK\$100,891,000) over 1,557,205,091 units (31 December 2023: 1,519,923,270 units), representing units in issue as at 31 December 2024 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year. The distribution will be paid to unitholders on 23 April 2025.

Consolidated Statement of Financial Position

As at 31 December 2024

	Notes	2024 HK\$'000	2023 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	9,547,000	9,703,000
Derivative financial instruments		7,725	12,653
Total non-current assets		<u>9,554,725</u>	<u>9,715,653</u>
Current assets			
Derivative financial instruments		12,245	20,159
Trade and other receivables	10	11,488	11,564
Tax recoverable		2,965	-
Bank balances and cash		47,319	61,013
Total current assets		<u>74,017</u>	<u>92,736</u>
Total assets		<u>9,628,742</u>	<u>9,808,389</u>
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		2,160	2,681
Bank borrowings	11	1,448,820	2,315,774
Deferred tax liabilities		266,563	253,130
Total non-current liabilities, excluding net assets attributable to unitholders		<u>1,717,543</u>	<u>2,571,585</u>
Current liabilities			
Derivative financial instruments		205	14
Trade and other payables	12	175,282	179,296
Amounts due to related companies		5,474	12,934
Bank borrowings	11	954,451	30,000
Provision for taxation		413	12,628
Manager's fee payable		11,985	12,335
Distribution payable		87,237	100,891
Total current liabilities		<u>1,235,047</u>	<u>348,098</u>
Total liabilities, excluding net assets attributable to unitholders		<u>2,952,590</u>	<u>2,919,683</u>
Net assets attributable to unitholders		<u>6,676,152</u>	<u>6,888,706</u>
Units in issue ('000)	13	1,547,604	1,510,529
Net asset value per unit (HK\$) attributable to unitholders	14	4.31	4.56

Notes

(1) General:

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on the Stock Exchange since 16 December 2005. Prosperity REIT is governed by the Trust Deed made between the REIT Manager and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the “**Group**”) is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2024 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

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

Impacts on application of Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The Group has applied the amendments for the first time in the current year.

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the classification should not be affected by management intentions or expectations to settle the liability within 12 months.
- clarify that the settlement of a liability can be a transfer of cash, goods or services, or the entity's own equity instruments to the counterparty. If a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the 2022 Amendments specifically clarify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date, even if compliance with the covenant is assessed only after the reporting date. The 2022 Amendments also specify that covenants with which an entity must comply after the reporting date (i.e. future covenants) do not affect the classification of a liability as current or non-current at the reporting date. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants, the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

In accordance with the transition provision, the Group has applied the new accounting policy to the classification of liability as current or non-current retrospectively. The application of the amendments in the current year had no material impact on the consolidated financial statements.

New and Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments ³
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature-dependent Electricity ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS Accounting Standards	Annual Improvements to HKFRS Accounting Standards — Volume 11 ³
Amendments to HKAS 21	Lack of Exchangeability ²
HKFRS 18	Presentation and Disclosure in Financial Statements ⁴
HKFRS 19	Subsidiaries without Public Accountability: Disclosures ⁴

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

² *Effective for annual periods beginning on or after 1 January 2025.*

³ *Effective for annual periods beginning on or after 1 January 2026.*

⁴ *Effective for annual periods beginning on or after 1 January 2027.*

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

HKFRS 18 Presentation and Disclosure in Financial Statements

HKFRS 18 *Presentation and Disclosure in Financial Statements*, which sets out requirements on presentation and disclosures in financial statements, will replace HKAS 1 *Presentation of Financial Statements*. This new HKFRS Accounting Standard, while carrying forward many of the requirements in HKAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some HKAS 1 paragraphs have been moved to HKAS 8 and HKFRS 7. Minor amendments to HKAS 7 *Statement of Cash Flows* and HKAS 33 *Earnings per Share* are also made.

HKFRS 18, and amendments to other standards, will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of the new standard is expected to affect the presentation of the statement of profit or loss and disclosures in the future financial statements.

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

Basis of preparation of financial statements

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the REIT Code.

The REIT Manager is of the opinion that, taking into account the fair value of investment properties of HK\$9,547,000,000, presently available banking facilities and internal financial resources, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of the Reporting Year. Hence, the consolidated financial statements have been prepared on a going concern basis.

The material accounting policy information is set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and entities controlled by Prosperity REIT and its subsidiaries. Control is achieved when Prosperity REIT:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- and
- has the ability to use its power to affect its returns.

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group assets and liabilities, income, expenses and cashflow are eliminated in full on consolidation.

(3) Revenue:

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	316,182	329,882
Car park income	31,264	31,342
	<u>347,446</u>	<u>361,224</u>
Rental related income	77,922	76,090
	<u><u>425,368</u></u>	<u><u>437,314</u></u>

(4) Segment information:

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

For the year ended 31 December 2024

	The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip street	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	91,276	63,956	33,007	64,484	43,955	34,931	15,837	347,446
Rental related income	30,231	17,120	5,495	10,177	7,865	4,430	2,604	77,922
Segment revenue in Hong Kong	121,507	81,076	38,502	74,661	51,820	39,361	18,441	425,368
Segment profit	94,387	61,793	29,256	56,713	38,081	29,507	13,570	323,307
Other income								286
Manager's fee								(48,147)
Trust and other expenses								(7,128)
Change in fair value of investment properties								(177,858)
Finance costs, net								(132,572)
Loss before taxation and transactions with unitholders								(42,112)

For the year ended 31 December 2023

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

(5) Trust and other expenses:

	<i>2024</i> <i>HK\$'000</i>	<i>2023</i> <i>HK\$'000</i>
Auditor's remuneration		
Audit fee	55	55
Non-audit fee	116	116
Bank charges	1,241	1,325
Legal and professional fees	82	259
Public relations-related expenses	280	283
Registrar fee	600	600
Trust administrative expenses	1,863	1,841
Trustee's fee	2,891	2,804
	<u>7,128</u>	<u>7,283</u>

(6) Finance costs, net:

	<i>2024</i> <i>HK\$'000</i>	<i>2023</i> <i>HK\$'000</i>
Interest expense on term loans	140,346	133,827
Interest rate swaps income realised	(22,080)	(35,931)
Interest expense on unsecured revolving loans	1,794	770
	<u>120,060</u>	<u>98,666</u>
Change in fair value of derivative financial instruments	12,512	40,059
	<u>132,572</u>	<u>138,725</u>

(7) Taxation:

	<i>2024</i> <i>HK\$'000</i>	<i>2023</i> <i>HK\$'000</i>
Current tax	22,491	25,077
Over-provision in prior years	(3,400)	(278)
Deferred tax	13,433	2,356
	<u>32,524</u>	<u>27,155</u>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2023: 16.5%) for the year ended 31 December 2024.

No provision for Hong Kong Profits Tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates.

In previous years, tax losses of approximately HK\$55.8 million pertaining to a property holding company was in discussion with the Inland Revenue Department (“**IRD**”). During the year ended 31 December 2024, the tax losses amount has been finalised and agreed with IRD. This resulted in an overprovision of taxation in prior years of approximately HK\$3.2 million and it has been included in distribution during this reporting period. Meanwhile, deferred tax assets arising from such tax losses of approximately HK\$9.2 million has been debited to profit or loss accordingly.

- (8) The basic loss per unit is calculated by dividing the loss for the year, before transactions with unitholders of HK\$74,636,000 (2023: HK\$5,673,000) by the weighted average of 1,538,840,482 (2023: 1,519,399,356) units in issue during the year, taking into account the units issuable as manager’s fee for its service in the last quarter of the relevant distribution year.

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

- (9) Investment properties:

	<i>31 Dec 2024</i>	<i>31 Dec 2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value		
At the beginning of the year	9,703,000	9,801,000
Additional expenditure	21,858	22,951
Change in fair value of investment properties	<u>(177,858)</u>	<u>(120,951)</u>
At the end of the year	<u><u>9,547,000</u></u>	<u><u>9,703,000</u></u>

(10) Trade and other receivables:

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	6,084	5,840
Less: allowance for credit losses	<u>(3,441)</u>	<u>(3,731)</u>
	2,643	2,109
Deposit and prepayments and other receivables	<u>8,845</u>	<u>9,455</u>
	<u><u>11,488</u></u>	<u><u>11,564</u></u>

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

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	82	218
2 – 3 months	1,329	1,540
Over 3 months	<u>1,232</u>	<u>351</u>
	<u><u>2,643</u></u>	<u><u>2,109</u></u>

(11) Bank borrowings:

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured term loans	2,400,000	2,340,000
Bank facility origination fees	<u>(16,729)</u>	<u>(24,226)</u>
	2,383,271	2,315,774
Unsecured revolving loan	<u>20,000</u>	<u>30,000</u>
	<u><u>2,403,271</u></u>	<u><u>2,345,774</u></u>
Carrying amount repayable:		
Within one year	954,451	30,000
Within a period of more than one year but not exceeding five years	<u>1,448,820</u>	<u>2,315,774</u>
	<u><u>2,403,271</u></u>	<u><u>2,345,774</u></u>

(12) Trade and other payables:

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,659	1,937
Tenants' deposits		
- Outside parties	129,889	132,041
- Related parties	744	713
Rental received in advance		
- Outside parties	6,670	4,940
Other payables	35,320	39,665
	<u>175,282</u>	<u>179,296</u>

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

	<i>2024</i>	<i>2023</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	1,027	609
2 – 3 months	425	254
Over 3 months	1,207	1,074
	<u>2,659</u>	<u>1,937</u>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of Reporting Year based on the lease terms amounted to HK\$74,964,000 (2023: HK\$77,529,000).

(13) Units in issue:	Number of units	HK\$'000
Balance as at 1 January 2023	1,508,461,255	3,238,270
Payment of manager's base fee and variable fee through issuance of new units during the year	27,048,968	47,980
Units bought back and cancelled	<u>(24,981,000)</u>	<u>(37,428)</u>
Balance as at 31 December 2023	1,510,529,223	3,248,822
Payment of manager's base fee and variable fee through issuance of new units during the year	<u>37,075,161</u>	<u>47,497</u>
Balance as at 31 December 2024	<u><u>1,547,604,384</u></u>	<u><u>3,296,319</u></u>

- (14) The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,547,604,384 units in issue as at 31 December 2024 (1,510,529,223 units in issue as at 31 December 2023).
- (15) At the end of the Reporting Year, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,161,030,000 (2023: HK\$255,362,000) and the Group's total assets less current liabilities amounted to HK\$8,393,695,000 (2023: HK\$9,460,291,000).
- (16) The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA.
- (17) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.

The directors of the REIT Manager as at the date of this announcement are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Wong Lai Hung as Executive Director; Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei), Mr. Wong Kwai Lam and Ms. Ng Shieu Yeing, Christina as Independent Non-executive Directors.