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Prosperity Real Estate Investment Trust

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

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

INTERIM RESULTS ANNOUNCEMENT FOR 2013

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 by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011 (collectively, the "Trust Deed") between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "REIT Manager"), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. 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 (the "Listing Date"). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2013 (the "Reporting Period") together with comparative figures for the corresponding period in 2012 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2013</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2012</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0744	HK\$0.0660	12.7%

<u>Key financial figures</u>	<u>As at 30 Jun 2013</u> <u>(unaudited)</u>	<u>As at 31 Dec 2012</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$4.55	HK\$4.24	7.3%
Property valuation	HK\$8,434 million	HK\$7,952 million	6.1%
Gearing ratio *	20.9%	22.4%	(1.5%) ¹

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2013</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2012</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$167.1 million	HK\$149.3 million	11.9%
Net property income	HK\$130.4 million	HK\$116.5 million	11.9%
Average effective unit rent	HK\$18.54 per sq. ft.	HK\$16.22 per sq. ft.	14.3%
Occupancy rate <i>(as at 30 June)</i>	98.1%	99.0%	(0.9%) ¹
Rental reversion rate	37.8%	33.1%	4.7% ¹
Cost-to-revenue ratio	22.0%	22.0%	-

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

¹ Absolute change

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Prosperity REIT owns a diverse portfolio of seven commercial properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. The total gross rentable area was 1,215,579 sq. ft., with a total of 430 car park spaces as at 30 June 2013.

Information about the properties in the portfolio, as at 30 June 2013, 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	2,923	97.5%
Prosperity Millennia Plaza	North Point	217,955	43	1,708	99.1%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	456	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,385	95.5%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	903	98.0%
Prosperity Center (portion)	Kwun Tong	149,253	105	776	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	283	100.0%
Total		<u>1,215,579</u>	<u>430</u>	<u>8,434</u>	<u>98.1%</u>

Market uncertainties in the global economy against the backdrop of a slowdown in Mainland China's economic growth, speculation of the US Federal Reserve ending its bond-buying program, and the austere property cooling measures introduced by the HKSAR government continued to cause market volatility. In Hong Kong, after corrections in the office leasing market in the central business district, the sector is expected to start picking up. As to Kowloon East, supply is still limited and most upcoming properties are for strata title sales in the near term. As Kowloon East has grown mature with the presence of multinational corporations, more companies have been drawn to relocate to this area. Rental level has been stable and remained healthy. Prosperity REIT has been well-positioned to benefit from this office decentralization trend and has achieved a remarkable rental reversion rate of 37.8% complemented with a stable occupancy rate of 98.1% during the first half of 2013.

Proactive leasing strategies and strong tenant relations have always been the key pillars of Prosperity REIT's business strategies, being the important factors to its outstanding business performance during the Reporting Period. During the Reporting Period, the average effective unit rent of Prosperity REIT's portfolio recorded a solid growth of 14.3% to HK\$18.54 per sq. ft..

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 22.0% for the Reporting Period.

As at 30 June 2013, Prosperity REIT's gearing ratio remained at a healthy level of 20.9%, providing us with a strong balance sheet to take advantage of future growth opportunities.

Investment Review

The REIT Manager will continue to seek out potential acquisition opportunities. We will assess every acquisition target prudently in accordance with our established investment criteria, including the potential to enhance 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 will also be a way to ensure sustainable growth in rental levels and capital appreciation. During the first half of 2013, a number of asset enhancement works were carried out at Prosperity Place and Trendy Centre.

Prosperity Place

Prosperity Place is located in Kwun Tong district in Kowloon East, and was converted from industrial/office use to commercial use in the fourth quarter of 2012. The additions and alterations works owing to the fulfillment of the conditions for obtaining approval for the special waiver under the industrial buildings revitalization scheme were completed in the first quarter of 2013.

In order to uplift the commercial image and position of Prosperity Place, we completed two asset enhancement works in the second quarter of 2013, including the replacement of the lift controller system for one cargo lift, and the installation of the Elevator Management System (EMS). With the completion of these asset enhancement works, the lift response and travelling time can be further reduced to cope with the increasing traffic of a prime grade commercial building.

Other asset enhancement works in progress include the renovation of the passenger lift lobbies and common corridors on selected floors, the replacement of the concrete parapet wall on 3/F flat roof with a tempered glass wall, and the renovation of the lift lobbies on the car park floors. These works will upgrade the building image and attract more high quality commercial tenants.

Trendy Centre

Trendy Centre is located in Lai Chi Kok, the heart of Kowloon's garment and fashion wholesaling district. In order to improve the tenants' working environment and increase the competitiveness of the building, renovation of the common washrooms and cargo lift lobbies were carried out and completed.

Outlook

In the remainder of 2013, external uncertainties with regard to the possible scaling back of monthly bond purchases in the US and the slowdown in Mainland China's economy will continue to weigh on the global economy. Nevertheless, the decentralized commercial property market in Hong Kong will, barring unforeseen circumstances, continue to stay resilient in the near term, due to the persistent decentralization trend and a limited supply of new properties.

Since Prosperity REIT's listing on 16 December 2005, we have demonstrated the ability to capture market opportunities and to effectively manage Prosperity REIT throughout different economic cycles. With the diligent and professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, we are well-poised to benefit from the resilience of the decentralized commercial property market, as well as the potentials arising from government policies, such as the industrial buildings revitalization scheme and the transformation of Kowloon East into another premier central business district. With these advantages, unitholders of Prosperity REIT can confidently expect stable and sustainable returns to continue in the foreseeable future.

Financial Review

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

	Turnover <i>HK\$'000</i>	Rental related income <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Net property income <i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	45,139	10,115	55,254	43,370
Prosperity Millennia Plaza	29,109	6,485	35,594	28,651
Commercial				
Harbourfront Landmark (portion)	8,581	2,852	11,433	9,165
Prosperity Place	23,310	266	23,576	17,609
Industrial/Office				
Trendy Centre	16,426	3,121	19,547	15,185
Prosperity Center (portion)	13,920	1,494	15,414	11,664
Industrial				
New Treasure Centre (portion)	5,451	829	6,280	4,774
Total	141,936	25,162	167,098	130,418

Revenue

During the Reporting Period, revenue improved to HK\$167.1 million, being HK\$17.8 million or 11.9% higher than the last corresponding half year.

The revenue comprised HK\$141.9 million of rental and car park income, plus HK\$25.2 million of rental related income. Rental and car park income was HK\$15.7 million or 12.5% higher than the last corresponding half year.

Net Property Income

For the Reporting Period, the net property income was HK\$130.4 million, exceeding the last corresponding half year by HK\$13.9 million or 11.9%. The growth was mainly attributable to the strong rental reversion rate of 37.8%, and the resilient performance of the leasing market in the decentralized districts. The cost-to-revenue ratio was 22.0%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$103.6 million, representing a DPU of HK\$0.0744. This represents an annualized distribution yield of 6.0%². The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$5.0 million (equivalent to HK\$0.0036 per unit), which have been recorded in the condensed consolidated statement of profit and loss and other comprehensive income for the Reporting Period.

Distribution

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

Liquidity and Financing

As at 30 June 2013, Prosperity REIT had facilities in an aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$10 million was drawn as at 30 June 2013. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

The term loan facility and the revolving credit facility bear interest at a variable rate. In order to hedge against the interest rate fluctuations under the term loan, Prosperity REIT through its wholly-owned finance company, entered into a plain vanilla interest rate swap agreement to fix the interest rate of 80% of the term loan, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 20.9% as at 30 June 2013, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.9% as at 30 June 2013.

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.

² Based on Prosperity REIT's closing unit price of HK\$2.47 as at 28 June 2013

Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$476.1 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	7,952,000	6,991,000
Additional expenditure	5,877	13,280
Increase in fair value of investment properties	476,123	947,720
Fair value at the end of the period/year	<u>8,434,000</u>	<u>7,952,000</u>

Charges on Assets

As at 30 June 2013, certain properties of Prosperity REIT, with an aggregate carrying value of HK\$8,363 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

Prosperity REIT and its subsidiaries have provided guarantees for the loan facilities of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

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 Period, other than the disposal of 7,532,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

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

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Monday, 9 September 2013 to Thursday, 12 September 2013, 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 Friday, 6 September 2013. The payment date of interim distribution will be on Wednesday, 18 September 2013.

REVIEW OF INTERIM RESULTS

The interim results of Prosperity REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT’s 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.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2013.

ISSUANCE OF INTERIM REPORT

The Interim Report of Prosperity REIT for the Reporting Period will be published on the websites of the Stock Exchange and Prosperity REIT and will be dispatched or sent to unitholders on or before Saturday, 31 August 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		<i>Six months ended 30 June</i>	
		<i>2013</i>	<i>2012</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	167,098	149,317
Property management fees		(3,851)	(3,393)
Property operating expenses		(32,829)	(29,437)
Total property operating expenses		(36,680)	(32,830)
Net property income		130,418	116,487
Interest income		-	44
Manager's fee		(20,167)	(17,759)
Trust and other expenses		(3,693)	(3,722)
Increase in fair value of investment properties		476,123	314,547
Finance costs	5	(20,840)	(21,824)
Profit before taxation and transactions with unitholders		561,841	387,773
Taxation	6	(13,592)	(11,617)
Profit for the period, before transactions with unitholders		548,249	376,156
Distribution to unitholders		(103,568)	(90,844)
Profit for the period, after transactions with unitholders		444,681	285,312
Other comprehensive income – item that may be subsequently classified to profit or loss:			
Change in fair value of cash flow hedge		11,969	(12,292)
Total comprehensive income for the period, after transactions with unitholders		456,650	273,020
Income available for distribution to unitholders		103,568	90,844
Basic earnings per unit (HK\$)	7	0.40	0.27

DISTRIBUTION STATEMENT

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period, before transactions with unitholders	548,249	376,156
Adjustments:		
Manager's fee	20,132	17,728
Increase in fair value of investment properties	(476,123)	(314,547)
Finance costs	5,021	5,049
Deferred tax	6,289	6,458
Income available for distribution (note (i))	103,568	90,844
Distribution to unitholders:		
For the six months ended 30 June	103,568	90,844
Distribution per unit (HK\$) (note (ii))	0.0744	0.0660

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 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) which have been recorded in the condensed consolidated statement of profit and 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\$20,132,000 (2012: HK\$17,728,000) out of the total manager's fee of HK\$20,167,000 (2012: HK\$17,759,000) (the difference of HK\$35,000 (2012: HK\$31,000) is paid in cash);
- (b) increase in fair value of investment properties of HK\$476,123,000 (2012: HK\$314,547,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$20,840,000 (2012: HK\$21,824,000) less cash finance cost of HK\$15,819,000 (2012: HK\$16,775,000); and
- (d) deferred tax provision of HK\$6,289,000 (2012: HK\$6,458,000).
- (ii) The DPU of HK\$0.0744 (2012: HK\$0.0660) is calculated based on Prosperity REIT's income available for distribution of HK\$103,568,000 (2012: HK\$90,844,000) over 1,391,683,715 units (2012: 1,375,762,318 units), representing units in issue as at 30 June 2013 plus the number of units to be issued after the distribution period to the REIT Manager as manager's fee for its service in the second quarter of 2013.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		30 Jun 2013 HK\$'000 (unaudited)	31 Dec 2012 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		8,434,000	7,952,000
Current assets			
Trade and other receivables	8	9,271	7,672
Bank balances and cash		56,988	44,305
Total current assets		66,259	51,977
Total assets		8,500,259	8,003,977
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		20,090	32,059
Secured term loan	10	1,748,444	1,743,423
Deferred tax liabilities		139,012	132,723
Total non-current liabilities, excluding net assets attributable to unitholders		1,907,546	1,908,205
Current liabilities			
Trade and other payables	9	151,346	137,365
Amounts due to related companies		11,575	10,245
Secured revolving loan	10	10,000	20,000
Provision for taxation		10,384	3,081
Manager's fee payable		10,315	9,875
Distribution payable		103,568	96,024
Total current liabilities		297,188	276,590
Total liabilities, excluding net assets attributable to unitholders		2,204,734	2,184,795
Net assets attributable to unitholders		6,295,525	5,819,182
Units in issue ('000)	11	1,387,399	1,379,867
Net asset value per unit (HK\$) attributable to unitholders	12	4.55	4.24

Notes

(1) Principal accounting policies:

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of Prosperity REIT's annual financial statements for the year ended 31 December 2012, except as described below.

In the current period, Prosperity REIT has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to HKFRS	Annual Improvement to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised

in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify transitional guidance on the first-time application of the standards.

In the current period, Prosperity REIT has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to Prosperity REIT as it deals only with separate financial statements.

The impact of the application of these standards on Prosperity REIT is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to Prosperity REIT.

The application of these standards does not have significant impact on amounts reported in the financial statements.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in Prosperity REIT's annual financial statements.

HKFRS 13 Fair Value Measurement

Prosperity REIT has applied HKFRS 13 for the first time in the current period. HKFRS 13 establishes a single source of guidance for, and disclosures about fair value measurements, and replaces those requirements previously included in various

HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures have been extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of HKFRS 13 does not have any material impact on the amounts recognised in the financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

Prosperity REIT has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current period. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income statement. Under the amendments to HKAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied

retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs issued but not effective

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

HKFRS 9	Financial Instruments ²
Amendment to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
HK(IFRIC) 21	Levies ¹

¹Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted

²Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The REIT Manager anticipates that HKFRS 9 will be adopted in the financial statements for the annual period beginning 1 January 2015 but that the application of HKFRS 9 may not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities. The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The REIT Manager anticipates that the application of the amendments will have no effect on Prosperity REIT as Prosperity REIT is not an investment entity.

The REIT Manager anticipates that the application of the above amendments to HKFRSs, based on the current business operation, will have no material financial impact on the financial information and the disclosure in the condensed consolidated financial statements.

(2) Basis of preparation:

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

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.

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2013</i>	<i>2012</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	132,025	116,542
Car park income	9,911	9,613
	<hr/>	<hr/>
	141,936	126,155
Rental related income	25,162	23,162
	<hr/>	<hr/>
	167,098	149,317
	<hr/> <hr/>	<hr/> <hr/>

(4) Segment information:

Prosperity REIT is currently investing in seven office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, a portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

Six months ended 30 June 2013 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue in Hong Kong	55,254	35,594	11,433	23,576	19,547	15,414	6,280	167,098
Segment profit	43,370	28,651	9,165	17,609	15,185	11,664	4,774	130,418
Manager's fee								(20,167)
Trust and other expenses								(3,693)
Increase in fair value of investment properties								476,123
Finance costs								(20,840)
Profit before taxation and transactions with unitholders								<u>561,841</u>

Six months ended 30 June 2012 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue in Hong Kong	48,746	31,224	10,945	21,172	17,882	13,624	5,724	149,317
Segment profit	38,572	24,824	9,117	15,453	14,078	10,246	4,197	116,487
Interest income								44
Manager's fee								(17,759)
Trust and other expenses								(3,722)
Increase in fair value of investment properties								314,547
Finance costs								(21,824)
Profit before taxation and transactions with unitholders								<u>387,773</u>

(5) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2013</i>	<i>2012</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
Secured term loan	14,092	15,008
Equalisation of interest expense through cash flow hedge	6,649	6,736
	<hr/>	<hr/>
	20,741	21,744
Secured revolving loan	99	80
	<hr/>	<hr/>
	20,840	21,824
	<hr/> <hr/>	<hr/> <hr/>

(6) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2013</i>	<i>2012</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	7,303	5,159
Deferred tax	6,289	6,458
	<hr/>	<hr/>
	13,592	11,617
	<hr/> <hr/>	<hr/> <hr/>

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 of Prosperity REIT 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.

(7) Basic earnings per unit:

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$548,249,000 (2012: HK\$376,156,000) by the weighted average of 1,387,535,547 (2012: 1,370,881,375) 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.

(8) Trade and other receivables:

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	872	246
Less: allowance for doubtful debts	(93)	(2)
	<hr/> 779	<hr/> 244
Deposits, prepayments and other receivables	8,492	7,428
	<hr/> 9,271	<hr/> 7,672

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

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	573	188
2 – 3 months	189	56
Over 3 months	17	-
	<hr/> 779	<hr/> 244

(9) Trade and other payables:

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	3,193	723
Tenants' deposits		
- Outside parties	108,420	98,405
- Related parties	425	425
Rental received in advance		
- Outside parties	3,789	2,017
Other payables	35,519	35,795
	<hr/> 151,346	<hr/> 137,365

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

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	1,748	210
2 – 3 months	1,112	301
Over 3 months	333	212
	<hr/> 3,193	<hr/> 723

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 Reporting Period based on the lease terms amounted to HK\$70,239,000 (31 December 2012: HK\$29,338,000).

(10) Borrowings:

	<i>30 Jun 2013</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2012</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loan	1,770,000	1,770,000
Origination fees	(21,556)	(26,577)
	<u>1,748,444</u>	<u>1,743,423</u>
Secured revolving loan	10,000	20,000
	<u>1,758,444</u>	<u>1,763,423</u>
Carrying amount repayable:		
Within one year	10,000	20,000
More than two years, but not exceeding five years	1,748,444	1,743,423
	<u>1,758,444</u>	<u>1,763,423</u>

(11) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2012	1,360,442,529	2,858,584
Payment of Manager's base fee and variable fee through issuance of new units during the year	19,424,572	35,541
	<u>1,379,867,101</u>	<u>2,894,125</u>
Payment of Manager's base fee and variable fee through issuance of new units during the period	7,531,742	19,693
	<u>1,387,398,843</u>	<u>2,913,818</u>

- (12) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$20,090,000 (31 December 2012: HK\$32,059,000), and the total number of 1,387,398,843 units in issue as at 30 June 2013 (31 December 2012: 1,379,867,101 units).
- (13) At the end of the reporting period, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$230,929,000 (31 December 2012: HK\$224,613,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$8,203,071,000 (31 December 2012: HK\$7,727,387,000).
- (14) The results have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager and by Prosperity REIT's auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Hong Kong, 22 August 2013

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) and Mr. Wong Kwai Lam as Independent Non-executive Directors.