

# Prosperity REIT

## 2011 Interim Results

For the six months ended 30 June 2011



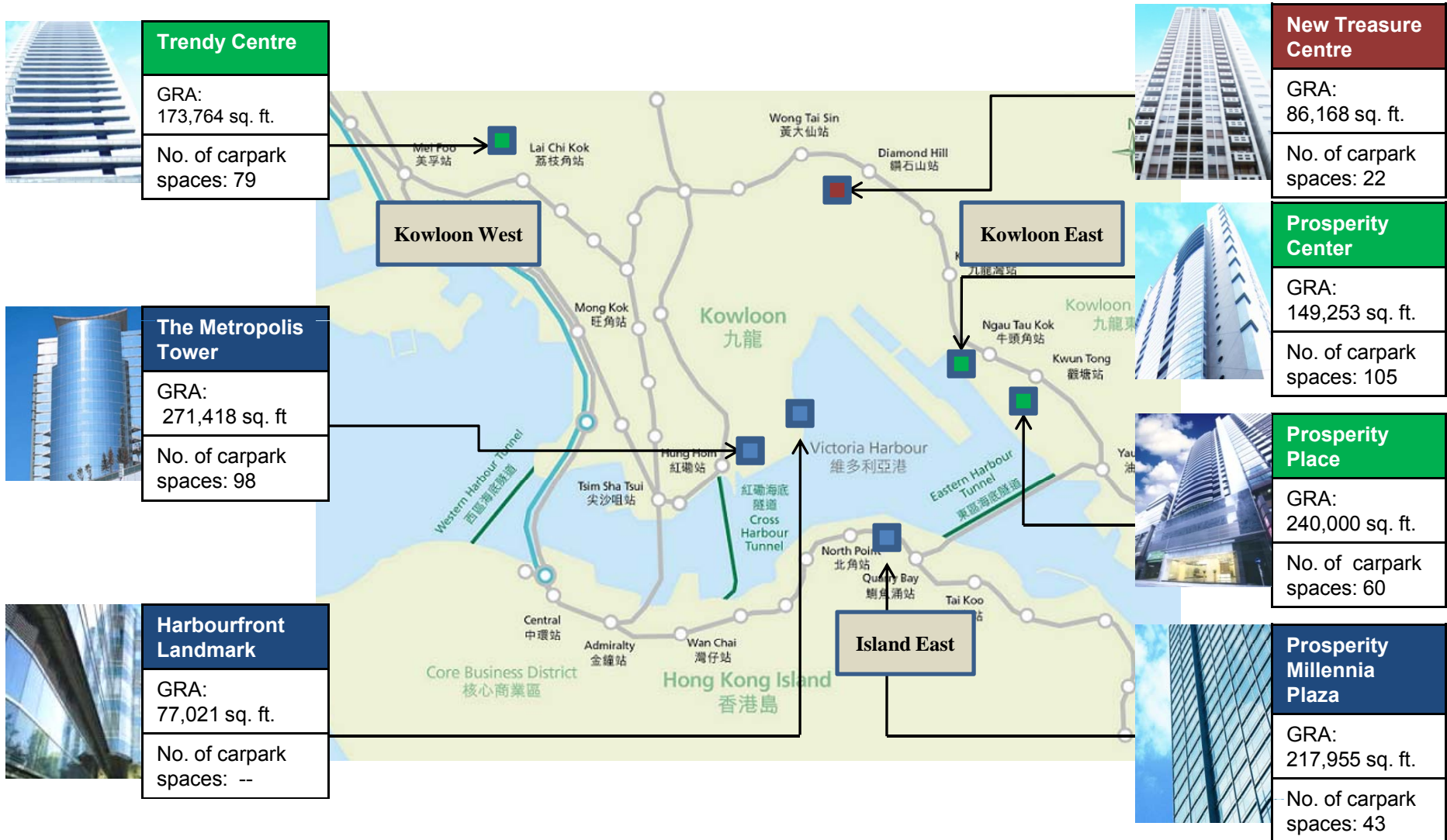
<b>Portfolio at a Glance</b>	<b>3 - 6</b>
<b>2011 Interim Results Highlights</b>	<b>7 - 9</b>
<b>Financial Review</b>	<b>10 - 14</b>
<b>Operations Review</b>	<b>15 - 20</b>
<b>Market Outlook</b>	<b>21 - 23</b>
<b>Growth Strategies &amp; Key Facts</b>	<b>24 - 26</b>

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# Portfolio at a Glance



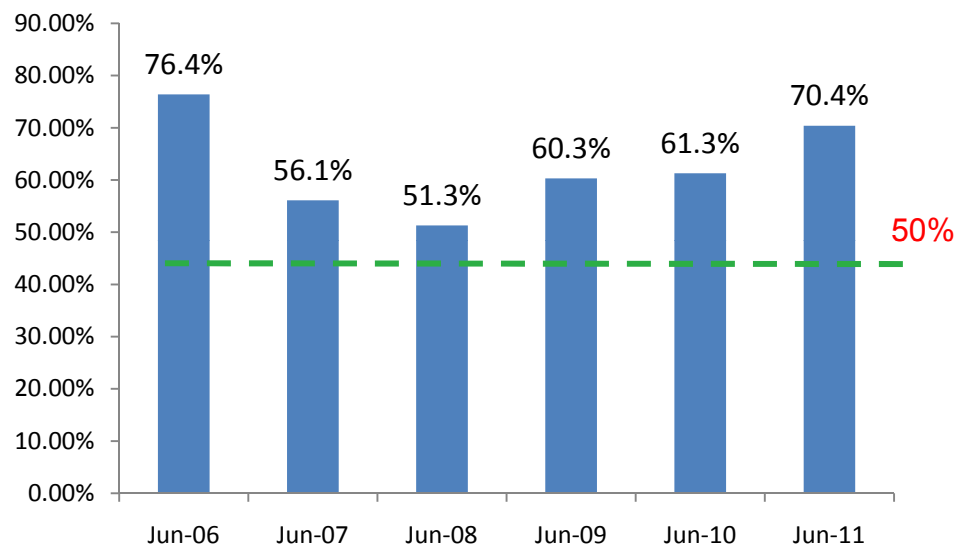
➤ Prime beneficial of the continued decentralization trend in Hong Kong



■ Grade A Building   
 ■ Industrial / Office Building   
 ■ Industrial Building

## Proactive Lease Management

Tenant Retention Rate  
1H06 – 1H11



- Tenant retention rate stays **above 50%** since IPO
- **Loyal & quality tenant base** provide a stable rental income and a **high tenant retention rate**

**Canon**

**Nintendo**

THE HONG KONG POLYTECHNIC UNIVERSITY  
香港理工大學

**Hallmark**

**EX** EXCEL HK

computer technologies

**JDB Holdings**

**LAMEX**  
MEMBER HNI CORP

**acer**

**ASUS**

**NEC**

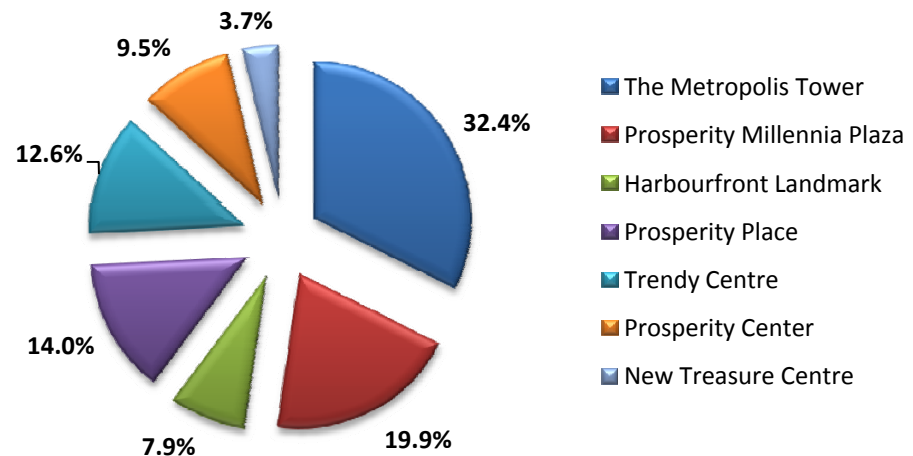
COSME-DE.COM

**A Quality Tenant Base**

## Net Property Income

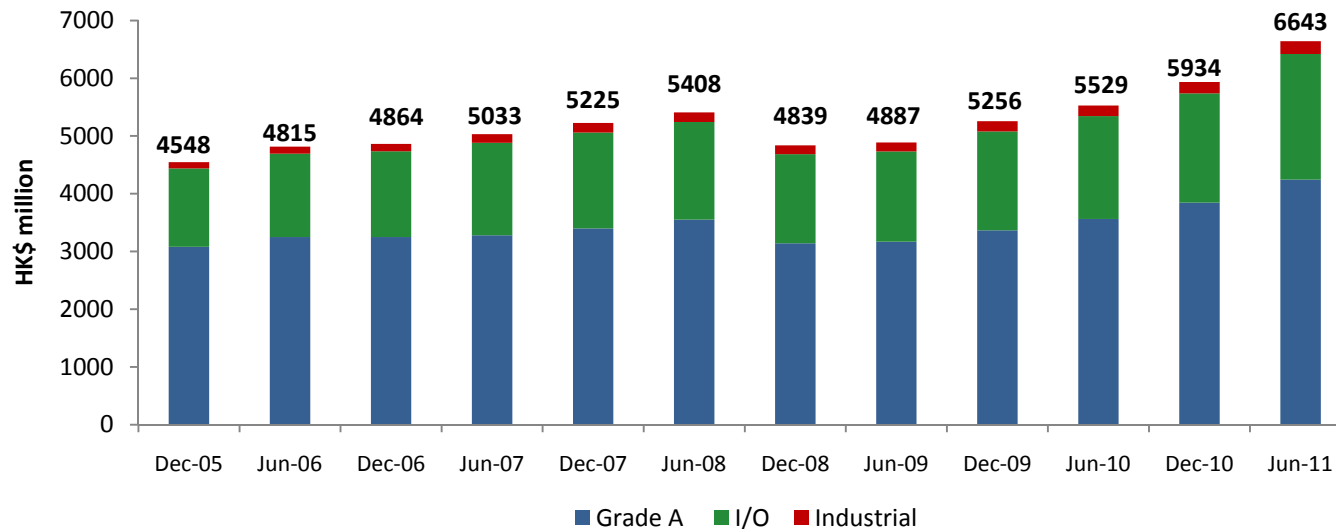
For the six months ended 30 June 2011

➤ Attractive portfolio of properties that combines both **growth and stability**



## Property Valuation

As at 30 June 2011



➤ As at 30 June 2011, the properties are appraised at approximately **HK\$6.6 billion**

Property Valuer: Savills Valuation and Professional Services Limited

# 2011 Interim Results Highlights

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## Six months ended 30 June 2011 Unaudited (Y-o-Y Comparison)

<b>Distribution Per Unit</b>	<b>HK\$0.0595</b>	<b>↑ 7.2%</b>
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## As at 30 June 2011 Unaudited (Compared with 31 December 2010)

<b>Property Valuation</b>	<b>HK\$6,643 mil</b>	<b>↑11.9%</b>
<b>Gearing Ratio</b>	<b>29.8%</b>	<b>↓(0.3%)<sup>1</sup></b>

## Six months ended 30 June 2011 Unaudited (Y-o-Y Comparison)

<b>Revenue</b>	<b>HK\$134.7 mil</b>	<b>↑ 0.8%</b>
<b>Net Property Income</b>	<b>HK\$104.6 mil</b>	<b>↓ (1.1%)</b>
<b>Average Effective Unit Rent</b>	<b>HK\$14.77 psf</b>	<b>↑ 0.3%</b>
<b>Occupancy Rate (as at 30 Jun 11)</b>	<b>98.5%</b>	<b>↑ 0.2%<sup>1</sup></b>
<b>Rental Reversion Rate</b>	<b>12.3%<sup>2</sup></b>	<b>↑ 14.8%<sup>1</sup></b>
<b>Tenant Retention Rate</b>	<b>70.4%</b>	<b>↑ 9.1%<sup>1</sup></b>
<b>Cost-to-revenue Ratio</b>	<b>22.4%</b>	<b>↑ 1.6%<sup>1</sup></b>

Notes:

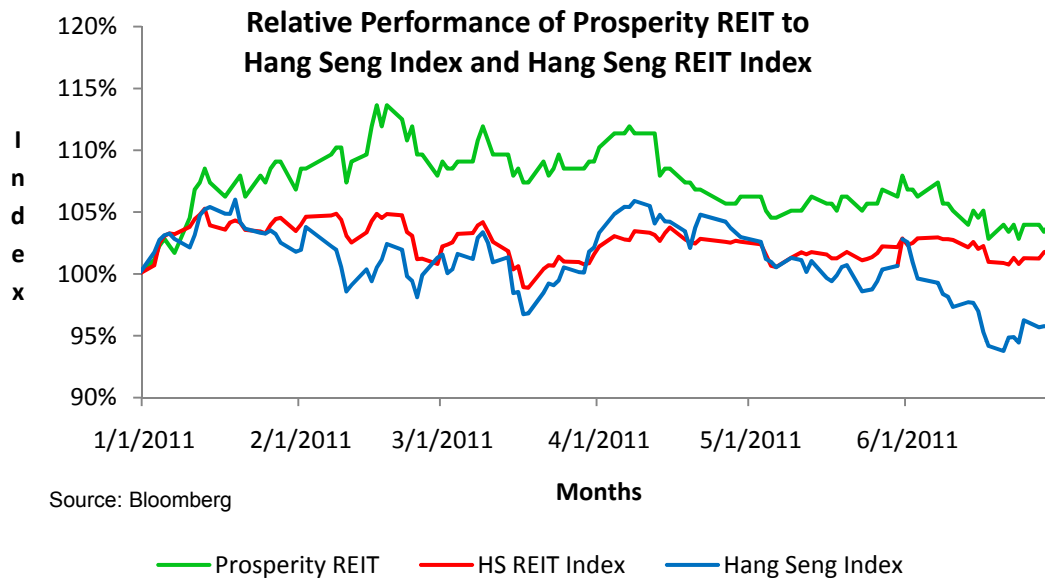
<sup>1</sup> absolute change

<sup>2</sup> For all renewal leases from 1 Jan 2011 to 30 June 2011

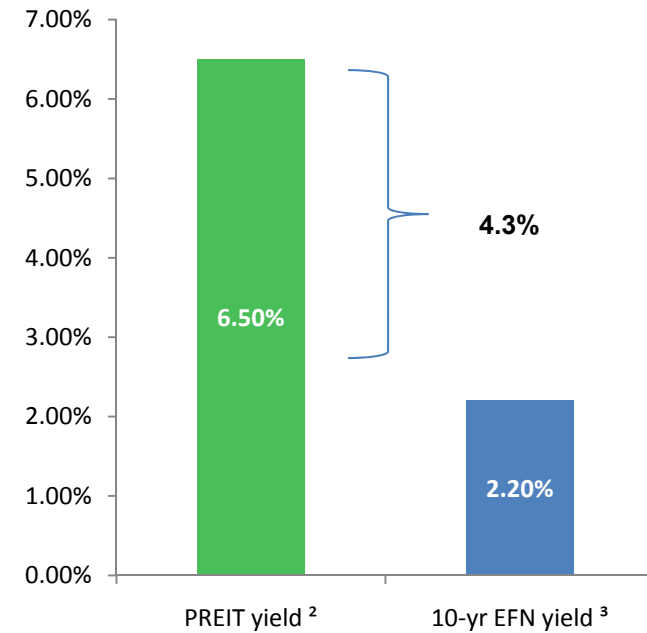
## Sustainable Growth

- DPU increased by 7.2% year-on-year
- Valuation rose to an all-time high and gearing ratio at a historical low
- Rental reversion rate rebound & surged by 14.8%

## Relative Performance<sup>1</sup>



## Attractive Yield



➤ Prosperity maintained an **attractive yield of 6.5%** and a **spread of 4.3%** over the 10-yr EFN

Price Appreciation	Unit Price as at 31 <sup>st</sup> Dec 2010	Unit Price as at 30 <sup>th</sup> June 2011	Percentage Change	Relative to:
1. Prosperity REIT	HK\$1.76	HK\$1.83	3.98%	
2. HSREIT Index	4668.55	4760.63	1.97%	<b>2.01%</b>
3. Hang Seng Index	23035.45	22398.10	-2.77%	<b>6.75%</b>

Notes:

- <sup>1</sup> Relative Performance for the period from 1/1/2011 to 30/6/2011
- <sup>2</sup> Based on Prosperity REIT's closing unit price of HK\$1.83 on 30/6/2011
- <sup>3</sup> Dividend yield of 10-years Exchange Fund Note as of 30/6/2011

# Financial Review

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## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June	1H11 unaudited (HK\$'000)	1H10 unaudited (HK\$'000)
<b>Revenue</b>	<b>134,736</b>	<b>133,651</b>
Total property operating expenses	(30,132)	(27,849)
<b>Net property income</b>	<b>104,604</b>	<b>105,802</b>
Interest income	338	10
Manager's fee	(15,615)	(13,872)
Trust and other expenses	(3,532)	(3,129)
Change in fair value of investment properties	702,275	266,811
Finance costs	(22,292)	(34,758)
<b>Profit before taxation</b>	<b>765,778</b>	<b>320,864</b>
Taxation	(125,951)	(52,758)
Profit for the period	639,827	268,106
<b>Distributable income<sup>1</sup></b>	<b>80,593</b>	<b>74,297</b>
<b>DPU (HK\$)</b>	<b>0.0595</b>	<b>0.0555</b>

➤ Cost to revenue ratio increased from 20.8% (30 Jun 2010) to 22.4% (30 Jun 2011), contained at a reasonable level

➤ Net asset value per unit has increased from HK\$2.70 (31 Dec 2010) to HK\$3.11 (30 June 2011)

Note:

<sup>1</sup> After adjustments of HK\$559.2 million for (i) change in fair value of investment properties; (ii) manager's fee; (iii) finance costs; and (iv) deferred tax

## Condensed Consolidated Statement of Financial Position

<b>Assets &amp; Liabilities as at 30 Jun 2011</b>	<b>Unaudited (HK\$'000)</b>
Investment properties	6,643,000
Bank balances and cash	319,644
Other assets	10,049
<b>Total Assets</b>	<b>6,972,693</b>
Borrowings	(2,038,165)
Other liabilities	(733,464)
<b>Total Liabilities</b>	<b>(2,771,629)</b>
<b>Net assets attributable to unitholders</b>	<b>4,201,064</b>
<b>Units in issue ('000)</b>	<b>1,350,556</b>

<b>Property Valuation</b>	<b>HK\$6,643 mil</b>
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<b>Gearing Ratio<sup>1</sup></b>	<b>29.8%</b>
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<b>NAV per unit</b>	<b>HK\$3.11</b>
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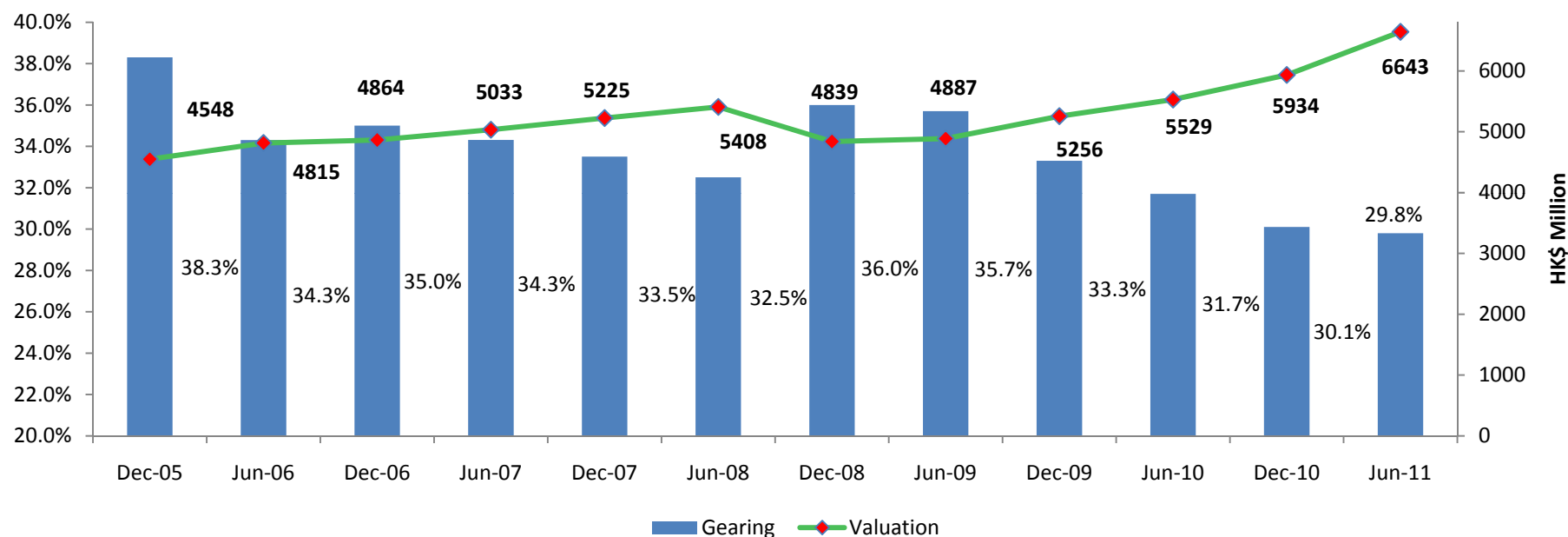
Note:

<sup>1</sup> Total borrowings of \$2,080 million (excluding the origination fees) over total assets

**Gearing Ratio**

**29.8%**

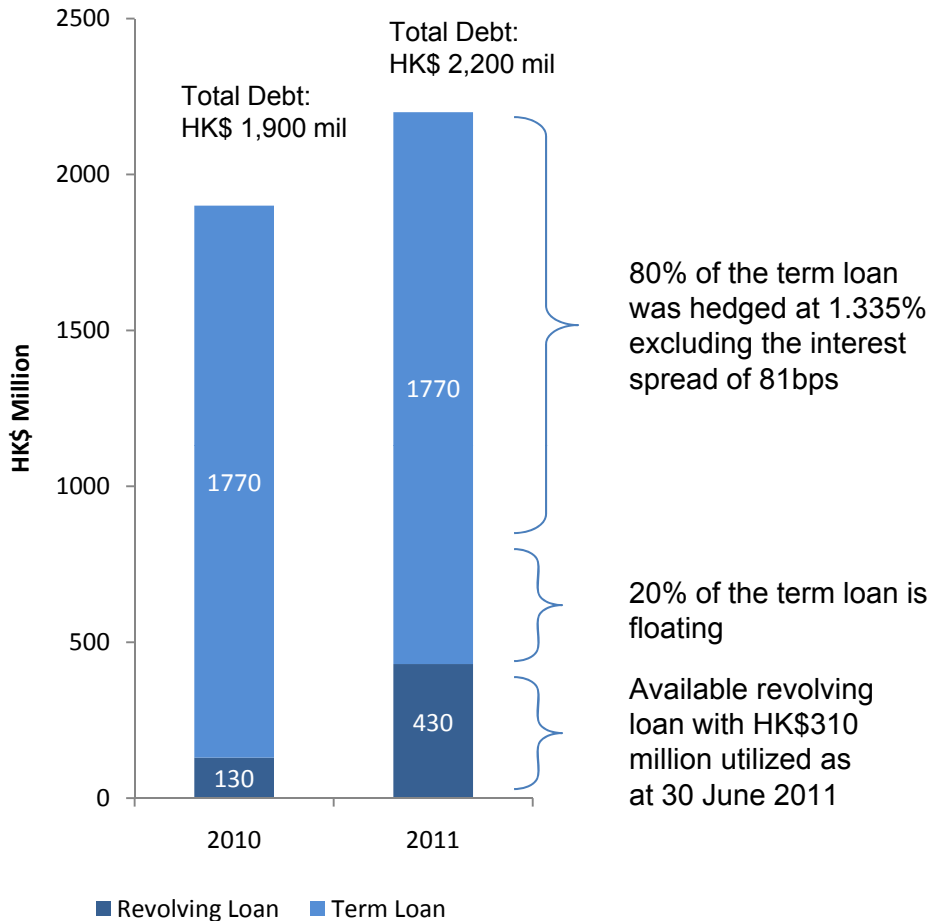
**Improved by 0.3%<sup>1</sup>**  
(Compared to 31 December 2010)



- **Gearing improved to 29.8%, recording the lowest level since IPO**
- **Well below the SFC gearing limit of 45%**
- **Debt-financing opportunity for acquisitions**

Note:

<sup>1</sup> absolute change



<b>Total Debt <sup>1</sup></b>	<b>HK\$2,200 mil</b>
<b>Weighted Average Cash Finance Cost <sup>2</sup></b>	<b>1.92%</b>

- **Term Loan due on 16 August 2015**
- **Free from financial engineering<sup>3</sup>**

### Financing Details

<b>Tenure</b>	<b>5 years<sup>4</sup></b>
<b>Term Loan</b>	<b>\$1,770 million</b>
<b>Revolving Credit Facility</b>	<b>\$430 million</b>
<b>Floating Interest Rate (per annum)</b>	<b>HIBOR + 0.81%</b>

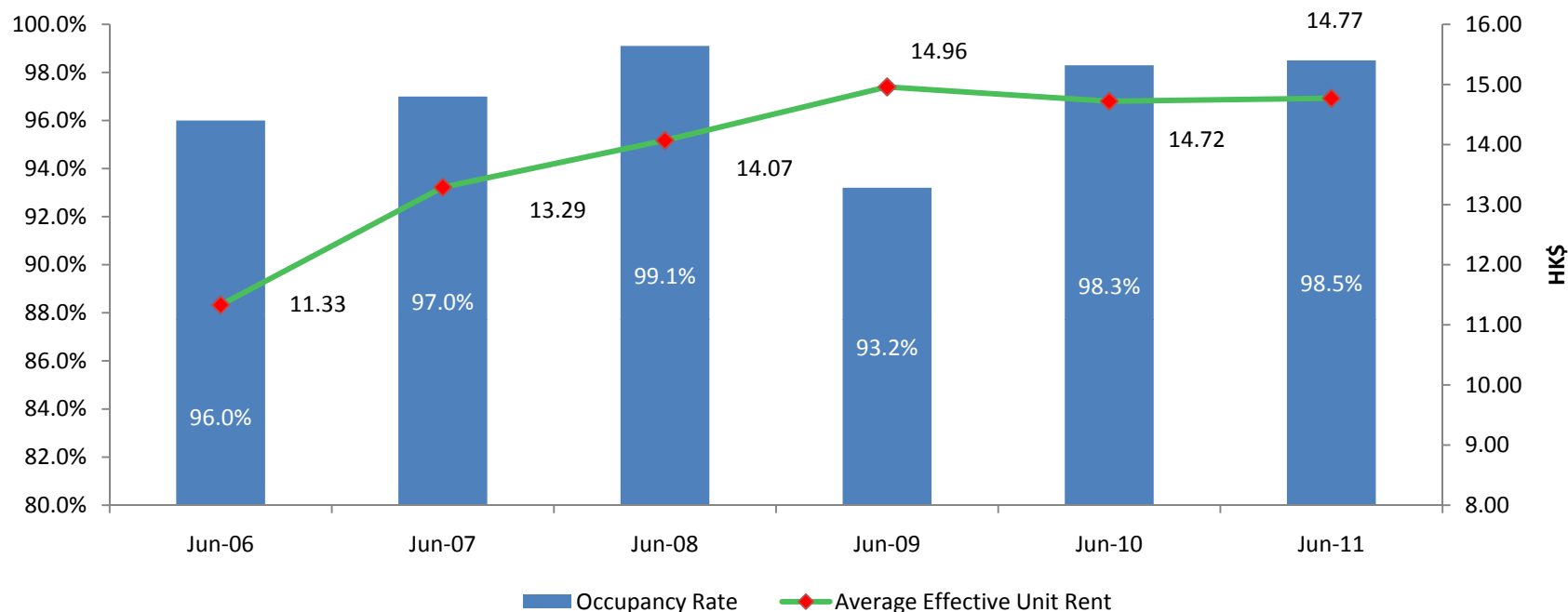
#### Notes:

- <sup>1</sup> Excludes the origination fee. HK\$310 million of the revolving loan facility has been utilized as at 30 June 2011
- <sup>2</sup> The weighted average cash finance cost for term loan during the period was 1.92% including the interest spread
- <sup>3</sup> As at 30 June 2011, \$1,416 million was hedged at 1.335% (excluding the interest spread of 81 bps) with plain vanilla swaps, until 16 June 2015
- <sup>4</sup> The borrowings will mature and become payable on 16 August 2015

# Operation Review

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## Sustainable Occupancy Rate



- Prosperity REIT's average portfolio occupancy rate was well above 95% for the past 5 years thanks to the proactive tenant recruitment efforts of the REIT Manager
- The negative rental reversion impact brought forward in FY2010 was mitigated due to the strong comeback of the rental growth in 1H11. Prosperity REIT is able to achieve a positive average effective rental growth in 1H11.

# Asset Enhancement



## Prosperity Place – Lift Renovation

*Prosperity Place Lift Renovation – Before*



- Replacement of new lift system controller and modernize the lift car to align to a commercial building

### **Achievement...**

- A speed increase
- Stable and comfortable lift travel

*After (Design Stimulation)*



Front & Side view

Back & Side view

*After (Actual)*



## Trendy Centre – Façade and Main Lobby Renovation

*Trendy Centre Façade – Before*



*After (Design Stimulation)*



*After (Actual)*



➤ The lower portion of the façade and main lobby have been renovated

### **Achievement...**

- A preeminent building landmark in the district
- A modern commercial Grade A building style

## Excellent Tenant Relations

The courteous and professional property management staff of Goodwell-Prosperity Property Services Limited create a friendly and caring atmosphere for the tenants, thereby strengthen our tenant relationships.

During 1H11, Prosperity REIT maintained a **close-to-zero rent delinquency rate**.



# Market Outlook

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# Economic Outlook for Hong Kong

**GDP YoY growth (Quarterly)**

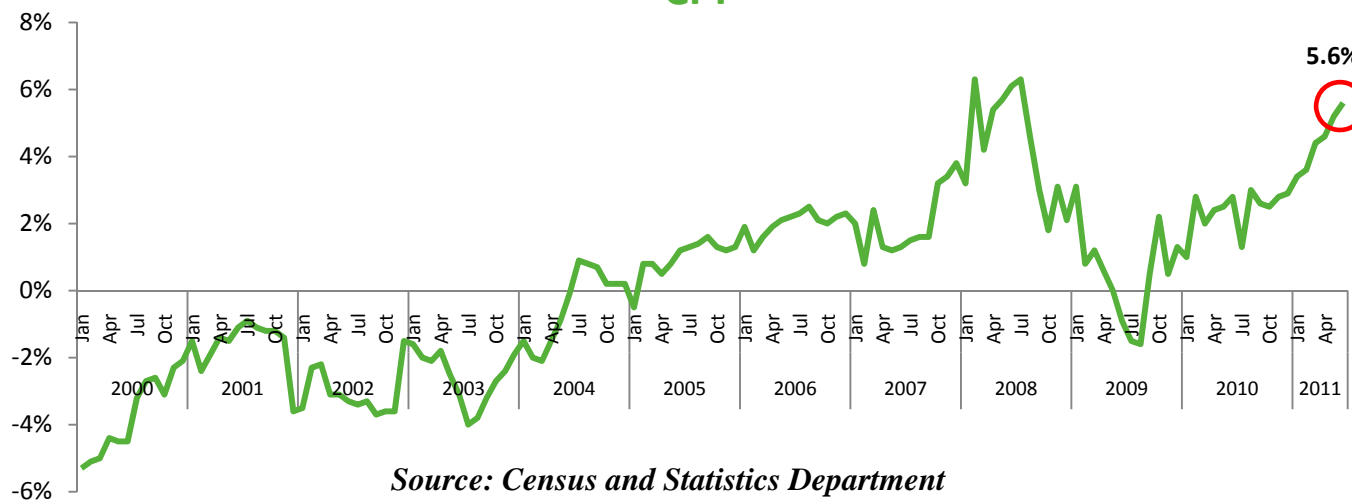


The EIU forecasts Hong Kong Real GDP to grow 5.1% in 2011

Source: Census and Statistics Department  
The Economist Intelligence Unit ("EIU") (as at July 2011)

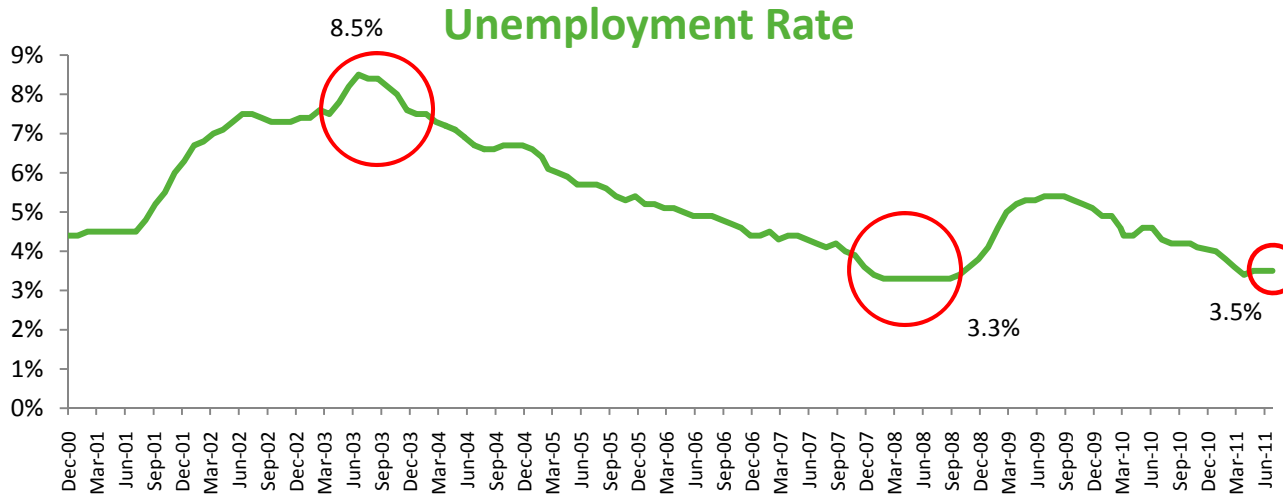
**CPI**

Consumer Price Index grew 5.6% Y-o-Y for June 2011



Source: Census and Statistics Department

# Economic Outlook for Hong Kong



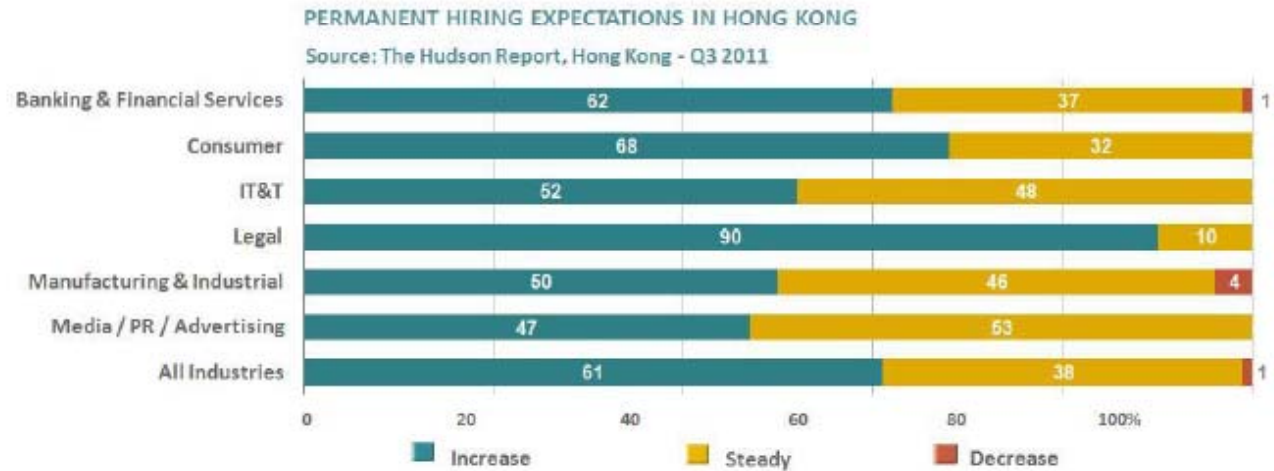
The unemployment rate is trending down over the last year. It was 3.5% for the 3 months ended 30 June 11

Source: Census and Statistics Department

## Permanent Hiring Expectations

Overall net hiring expectations decline to 61% for Q3 2011 from 69% for Q2 2011

This is the first quarter in which expectations have fallen since Q2 2009. Employers have tend to be more stable in manpower after 2 years of expansionary mode.



# Growth Strategies & Key Facts



## *Growth Focused Strategies*



### Organic Growth

- ✓ Proactive leasing efforts
- ✓ “Tip top” building management
- ✓ Close business relationships with tenants



### Asset Enhancement Growth

- ✓ Aesthetic enhancements and upgrades
- ✓ Energy efficiency
- ✓ Prudent payback periods



### Yield Accretive Acquisitions

- ✓ Strong relationships with sponsor and estate agents



*Prosperity Millennia Plaza*

*Key Facts as at 30 June 2011*

<b>IPO</b>	<b>16 December 2005</b>
<b>Indicative Yield</b>	<b>6.5% at \$1.83 as at 30 June 2011 (based on annualized DPU HK\$0.0595 for 1H11)</b>
<b>Total number of units</b>	<b>1,350,556,346</b>
<b>Market Capitalization</b>	<b>HK\$2.47 billion</b>
<b>Average daily trading volume</b>	<b>1.5 million units (1H 2011)</b>
<b>Free Float</b>	<b>79.6%</b>
<b>Portfolio Size</b>	<b>1,215,579 sq.ft. (gross)</b>
<b>No. of Tenants</b>	<b>543 (as of 30 June 2011)</b>
<b>No. of Carpark spaces</b>	<b>407</b>
<b>Financial Engineering</b>	<b>Nil</b>



*Prosperity Place*

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