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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

DISPOSAL OF HARBOURFRONT LANDMARK PROPERTY

This announcement is made pursuant to paragraph 10.3 of the REIT Code.

On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as Vendor, the REIT Manager as the manager of Prosperity REIT and Glory Ventures Asia (H.K.) Limited as Purchaser entered into the Share Purchase Agreement in respect of the sale of the Harbourfront Landmark Property (through its holding company) by Prosperity REIT. To the best knowledge, information and belief of the REIT Manager, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are not Connected Persons (within the meaning of Chapter 8 of the REIT Code) and are independent third parties of Prosperity REIT.

The Consideration payable by the Purchaser for the purchase of the Sale Share and assignment of the Loans shall be the Disposal Amount of HK\$885,741,500, subject to the Adjustment by reference to the Adjusted NAV as set out in the Completion Statement. The REIT Manager does not expect the Adjustment to be material as at the date of this Announcement. The Disposal Amount represents a premium of approximately 49.1% to the Appraised Value as at 31 December 2016 (being HK\$594,000,000).

The Disposal Amount represents approximately 19.4% of total market capitalisation of Prosperity REIT (based on the average closing price of the Units on the Hong Kong Stock Exchange for the five business days immediately preceding the date of this announcement). The Disposal Amount is also less than 15% of the gross asset value of Prosperity REIT.

The REIT Manager is satisfied that no Unitholders' approval is required for the Disposal pursuant to the REIT Code and the Trust Deed.

As the Disposal may or may not proceed to Completion, Unitholders and prospective investors of Prosperity REIT are advised to exercise caution when dealing in the Units.

1. SHARE PURCHASE AGREEMENT

On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as Vendor, the REIT Manager as the manager of Prosperity REIT and Glory Ventures Asia (H.K.) Limited as Purchaser entered into the Share Purchase Agreement in respect of the sale of the Harbourfront Landmark Property (through its holding company) by Prosperity REIT. The Vendor is the legal owner of the Sale Share, being the entire issued share capital of the Target Company. Under the Share Purchase Agreement, the Vendor, pursuant to the instruction and recommendation of the REIT Manager, agreed to: (i) sell to the Purchaser the Sale Share; and (ii) together with the REIT Manager, procure the assignment of the Loans to the Purchaser, with the rights attached to it as at and from the Completion Date.

To the best knowledge, information and belief of the REIT Manager, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are not Connected Persons (within the meaning of Chapter 8 of the REIT Code) and are independent third parties of Prosperity REIT.

The principal terms of the Share Purchase Agreement are as follows:

- Date** : 20 January 2017
- Parties** : (1) the Trustee (in its capacity as trustee of Prosperity REIT) as Vendor;
- (2) the REIT Manager (in its capacity as manager of Prosperity REIT); and
- (3) Glory Ventures Asia (H.K.) Limited as Purchaser.
- Asset to be Disposed** : The Harbourfront Landmark Property (details of which are set out in section 2 below).

Consideration : The Consideration payable by the Purchaser for the purchase of the Sale Share and assignment of the Loans shall be the Disposal Amount of HK\$885,741,500, subject to an adjustment (the "**Adjustment**") to either: (a) add the amount of the Adjusted NAV as set out in the Completion Statement (if it is a positive amount); or (b) subtract the absolute value of the Adjusted NAV as set out in the Completion Statement (if it is a negative amount). The "**Adjusted NAV**" is the total assets of the Target Company (other than the value of the Harbourfront Landmark Property and deferred tax assets) minus the total liabilities of the Target Company (other than the liability in respect of the Loans and deferred tax liabilities) as at Completion. The REIT Manager does not expect the Adjustment to be material as at the date of this Announcement.

The Consideration has been arrived at on a willing buyer and a willing seller arm's-length transaction basis after taking into account the Appraised Value as at 31 December 2016 (being HK\$594,000,000) as appraised by Jones Lang LaSalle Limited, an independent property valuer and the principal valuer of Prosperity REIT. The Disposal Amount represents a premium of approximately 49.1% to the Appraised Value.

Initial Payment : By Completion, the Purchaser shall pay an amount in cash (the "**Initial Payment**") equal to the Disposal Amount of HK\$885,741,500 plus or minus the Adjusted NAV as set out in the Pro Forma Completion Statement. The Purchaser shall pay the Initial Payment as follows:

(a) An amount of HK\$30,000,000 (the "**Earnest Money**") was paid by the Purchaser as earnest money when the letter of intent in respect of the Disposal (which constitutes a non-legally binding offer of Purchaser to purchase the Target Company) was signed prior to the date of this announcement on 8 December 2016. The Earnest Money would have been refundable to the Purchaser if the Share Purchase Agreement was not entered into.

- (b) A further amount of HK\$58,574,150 (which, together with the Earnest Money, represents 10% of the Disposal Amount and collectively referred to as the "**Deposit**") was paid by the Purchaser upon signing of the Share Purchase Agreement on 20 January 2017.
- (c) An amount equal to the balance of the Initial Payment after deducting the Deposit (the "**Completion Amount**") shall be paid by the Purchaser at Completion.

Save where the Vendor or the REIT Manager fails to comply with their respective Completion Obligations and the Purchaser elects to terminate the Share Purchase Agreement, in which case the REIT Manager shall instruct the Vendor to (immediately upon demand by the Purchaser) return the Deposit (including the Earnest Money) to the Purchaser without any interest or cost, the Deposit (including the Earnest Money) is non-refundable.

Final Payment : Within 15 Business Days after agreement or determination of the Completion Statement (being the statement of financial position of the Target Company as at the close of business on the Completion Date), which shall be agreed between the Purchaser and the REIT Manager and, failing such agreement, determined by Deloitte Touche Tohmatsu: (i) if the Adjusted NAV (as set out in the Completion Statement) is higher than the Adjusted NAV (as set out in the Pro Forma Completion Statement), the Purchaser shall pay Prosperity REIT the difference; and (ii) if the Adjusted NAV (as set out in the Completion Statement) is lower than the Adjusted NAV (as set out in the Pro Forma Completion Statement), Prosperity REIT shall repay to the Purchaser the difference; such payment by the Purchaser or Prosperity REIT, as the case may be, being the "**Final Payment**".

Conditions Precedent : Completion is not subject to any conditions precedent under the Share Purchase Agreement.

Completion : Pursuant to the terms of the Share Purchase Agreement, the Disposal is expected to be completed by the Long Stop Date (being 3 March 2017 or such other date that the REIT Manager and the Purchaser agree in writing).

Warranties : The Share Purchase Agreement contains certain customary representations and warranties given by the Vendor and the REIT Manager in respect of the Target Company, the Sale Share, the Loans and the Harbourfront Landmark Property. As the Parties have agreed on the Disposal being on an “as-is” basis, neither the Vendor nor the REIT Manager has given warranties as to the fittings and finishes, state, condition, boundary, floor area, usage and future development potential of the Harbourfront Landmark Property. The liability in respect of any breach of warranties is subject to the limitations (such as, among others, time limit and amount of total liability) set out in the Share Purchase Agreement.

Termination : If the Vendor's or the REIT Manager's Completion Obligations are not fully complied with, the Purchaser shall be entitled to terminate the Share Purchase Agreement (save for certain provisions in respect of confidentiality which shall remain binding as between the Parties), in which case the REIT Manager shall instruct the Vendor to (immediately upon demand by the Purchaser) return the Deposit to the Purchaser without any interest or cost.

If the Purchaser's Completion Obligations are not fully complied with, the Vendor or the REIT Manager shall be entitled to terminate the Share Purchase Agreement (save for certain provisions in respect of confidentiality which shall remain binding as between the Parties), in which case the Deposit shall be forfeited.

2. THE HARBOURFRONT LANDMARK PROPERTY

Completed in 2001, the Harbourfront Landmark Property is a three-storey commercial area on the podium level of Harbourfront Landmark, occupying the 3rd, 5th and 6th floors of a 70-storey skyscraper on the harbour front of the Kowloon peninsula in Hung Hom and has a total gross rentable area of 77,021 square feet. The Target Company is the legal and beneficial owner of the Harbourfront Landmark Property. The Harbourfront Landmark Property was part of Prosperity REIT's initial portfolio when it was listed on the Hong Kong Stock

Exchange in 2005. The abovementioned three floors represent all of Prosperity REIT's interest in Harbourfront Landmark. As at the date of this announcement, other than the Harbourfront Landmark Property and the Loans, the REIT Manager does not consider there to be any other material asset or liability of the Target Company.

The Appraised Value as at 31 December 2016 was HK\$594,000,000. The occupancy of the Harbourfront Landmark Property was 100% as at 31 December 2016. The total assets, total revenue and the net property income of the Target Company for the six months ended 30 June 2016 and the year ended 31 December 2015 are set out as follows:

	For the six months ended 30 June 2016 (unaudited)		For the year ended 31 December 2015 (audited)	
	<i>Amount (HK\$'000)</i>	<i>Approx. % of Prosperity REIT's portfolio</i>	<i>Amount (HK\$'000)</i>	<i>Approx. % of Prosperity REIT's portfolio</i>
(1) Total assets	557,202 ⁽¹⁾	5.2% ⁽¹⁾	515,559 ⁽²⁾	4.9% ⁽²⁾
(2) Total revenue	14,892	6.7%	28,418	6.5%
(3) Net property income	12,323	7.0%	23,044	6.7%

Notes:

(1) *Based on unaudited figures as at 30 June 2016.*

(2) *Based on audited figures as at 31 December 2015.*

3. DIVESTMENT FEE

Pursuant to the Trust Deed, the REIT Manager is entitled to receive a divestment fee of HK\$4,428,707.50 (the "**Divestment Fee**"), being 0.5% of the Disposal Amount, which shall be paid as soon as practicable after Completion. Pursuant to the Trust Deed, the REIT Manager may elect to receive the Divestment Fee in the form of cash or, with the prior approval of the Unitholders by an ordinary resolution, entirely in the form of Units or partly in cash and partly in the form of Units. The REIT Manager elects to receive the Divestment Fee in the form of cash. Upon receipt of the Divestment Fee, the REIT Manager will apply the full amount towards the agency fee to be paid to an independent third party agent, who is not a Connected Person (within the meaning of Chapter 8 of the REIT Code) of Prosperity REIT, in connection with the Disposal.

No fee is payable to the Trustee in connection with the Disposal.

4. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Harbourfront Landmark Property is considered by the Board as a non-core asset of Prosperity REIT. Given that the Disposal Amount is higher than the Appraised Value as at 31 December 2016, the Disposal is expected to be accretive to the NAV of Prosperity REIT. Furthermore, the Disposal will enable the REIT Manager to streamline its operations and allocate resources more efficiently.

Upon Completion, a gain (compared with the Appraised Value as of 31 December 2016) of approximately HK\$283 million (prior to the Adjustment and after deducting Expenses of approximately HK\$9 million) is expected to result from the Disposal.

5. USE OF PROCEEDS

The REIT Manager currently intends to use the proceeds from the Disposal, being approximately HK\$877 million (prior to the Adjustment and after deducting the Expenses), for Prosperity REIT's general corporate purposes and working capital. The REIT Manager has no property acquisition target for Prosperity REIT at the time of this announcement.

The Trust Deed does not require the REIT Manager to distribute realised gains from the disposal of properties.

6. FINANCIAL EFFECTS OF THE DISPOSAL

The pro forma financial effects of the Disposal on DPU and NAV below are strictly for illustrative purposes only and do not reflect the actual financial position of Prosperity REIT following Completion, and do not constitute a profit forecast. They have been prepared based on the unaudited consolidated financial statements of Prosperity REIT for the six months ended 30 June 2016, being the latest published interim results of Prosperity REIT, assuming that Prosperity REIT had disposed of the Sale Share on 1 January 2016.

(i) *Pro forma DPU for the six months ended 30 June 2016*

Based on historical leasing and operational data of Prosperity REIT but without taking into account the use of proceeds from the Disposal, the pro forma DPU for the six months ended 30 June 2016, as if Prosperity REIT had disposed of the Sale Share on 1 January 2016, will be decreased from HK\$0.0906 to HK\$0.0824.

(ii) *Pro forma NAV per Unit as at 30 June 2016*

The pro forma NAV per Unit as at 30 June 2016, as if Prosperity REIT had disposed of the Sale Share on 1 January 2016, will be increased from HK\$5.12 to HK\$5.35.

7. EXPECTED GEARING RATIO

Prosperity REIT's gearing ratio and aggregate leverage was 26.5% according to the unaudited consolidated financial statements of Prosperity REIT for the six months ended 30 June 2016 (as disclosed in the latest interim financial statements of Prosperity REIT as at 30 June 2016). After taking into account its entering into of a new facility through its special purpose vehicle on 11 August 2016 (for the purpose of refinancing one of its existing facilities) which resulted in the gearing ratio being 26.6%, the gearing ratio is expected to decrease from 26.6% to 25.9% upon the completion of the Disposal.

8. IMPLICATIONS UNDER THE REIT CODE

To the best knowledge, information and belief of the REIT Manager, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are not Connected Persons and are third parties independent of Prosperity REIT. Therefore, the Disposal does not constitute a connected party transaction of Prosperity REIT under the REIT Code.

The Disposal Amount represents approximately 19.4% of total market capitalisation of Prosperity REIT (based on the average closing price of the Units on the Hong Kong Stock Exchange for the five business days immediately preceding the date of this announcement). The Disposal Amount is also less than 15% of the gross asset value of Prosperity REIT.

The REIT Manager is satisfied that no Unitholders' approval is required for the Disposal pursuant to the REIT Code and the Trust Deed.

9. OPINIONS OF THE BOARD AND THE TRUSTEE

The Board (including the independent non-executive Directors) is satisfied that the Disposal, and the terms and conditions of the Share Purchase Agreement are at arm's length, on normal commercial terms, fair and reasonable and in the interests of Prosperity REIT and the Unitholders as a whole. Further, the Board is satisfied that no Unitholders' approval is required for the Disposal.

Based and in sole reliance on the opinion of the Board and the information in this announcement, together with the information and assurances provided by the REIT Manager to the Trustee, having taken into account its duties under the Trust Deed and the REIT Code, the Trustee is satisfied that: (i) the Disposal is in compliance with the REIT Code and the Trust Deed; and (ii) no Unitholders' approval is required under the REIT Code for the Disposal.

10. FURTHER ANNOUNCEMENTS

The REIT Manager will make an announcement upon Completion having taken place and further announcement(s) as and when required under the REIT Code, including when the amount of the Final Payment (including the Adjustment) is determined.

This announcement is made pursuant to paragraph 10.3 of the REIT Code.

As the Disposal may or may not proceed to Completion, Unitholders and prospective investors of Prosperity REIT are advised to exercise caution when dealing in the Units.

DEFINITIONS

In this announcement, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, these defined terms are not included in the table below:

“Adjusted NAV”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Adjustment”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Appraised Value”	the value of the Harbourfront Landmark Property as at 31 December 2016 as appraised by Jones Lang LaSalle Limited, an independent property valuer and the principal valuer of Prosperity REIT, being HK\$594,000,000
“Board”	the board of Directors
“Completion”	completion of the Disposal pursuant to the Share Purchase Agreement
“Completion Amount”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Completion Date”	means the date on which Completion takes place
“Completion Obligations”	the obligations of a Party in respect of Completion under the Share Purchase Agreement
“Completion Statement”	the statement of financial position of the Target Company as at close of business on the Completion Date, which will be prepared by the REIT Manager and agreed by the

	Purchaser and, failing such agreement, determined by Deloitte Touche Tohmatsu
“Connected Persons”	has the meaning given to this term in Chapter 8 of the REIT Code
“Consideration”	the consideration payable by the Purchaser for the Disposal, which is agreed to be the Disposal Amount, subject to the Adjustment
“Deposit”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Directors”	the directors of the REIT Manager
“Disposal”	the disposal of the Sale Share and the assignment of the Loans under the Share Purchase Agreement
“Disposal Amount”	HK\$885,741,500, being the value attributed to the Harbourfront Landmark Property as agreed between the Parties
“Divestment Fee”	has the meaning given to this term in section 3 of this announcement headed “Divestment Fee”
“DPU”	distribution per unit
“Earnest Money”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Expenses”	the estimated total fees and charges payable by Prosperity REIT in relation to the Disposal (including the Divestment Fee, advisory fees and professional fees)
“Final Payment”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Gearing Ratio”	the aggregate borrowings of Prosperity REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of Prosperity REIT (as calculated under the Trust Deed). Pursuant to the Trust Deed and in compliance with paragraph 7.9 of the REIT Code, the Gearing Ratio of Prosperity REIT shall not at any time exceed 45%

“Harbourfront Landmark Property”	the property which is held by the Target Company and described as ALL THOSE 7,031 equal undivided 74,479th parts or shares of and in ALL THAT piece or parcel of ground registered at the Land Registry as KOWLOON INLAND LOT NO.11055 And of and in the development thereon now known as “HARBOURFRONT LANDMARK (海名軒)” No.11 Wan Hoi Street, Kowloon, Hong Kong TOGETHER with the sole and exclusive right and privilege to hold use occupy and enjoy ALL THOSE COMMERCIAL UNITS on 3RD FLOOR, 5TH FLOOR AND 6TH FLOOR of HARBOURFRONT LANDMARK
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Initial Payment”	has the meaning given to this term in section 1 of this announcement headed “Share Purchase Agreement”
“Loans”	the entire amount of indebtedness of the Target Company owing to the Vendor, Progain Group Limited and Conestoga Limited (which, save for the Vendor, are wholly-owned special purpose vehicles of Prosperity REIT) as at Completion (including all accrued but unpaid interest), the benefit of which is to be assigned to the Purchaser at Completion. As at 30 June 2016, the amount owing by the Target Company under the Loans is HK\$329,446,000
“Long Stop Date”	3 March 2017 (or such other date as the REIT Manager and the Purchaser may agree in writing)
“NAV”	net asset value
“Parties”	the parties to the Share Purchase Agreement, and each a “Party”
“Pro Forma Completion Statement”	the pro forma statement of financial position of the Target Company as at the close of business on the Completion Date, to be delivered by the REIT Manager at least four

business days prior to the Completion Date

“Prosperity REIT”	Prosperity Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) subject to applicable conditions from time to time
“Purchaser”	Glory Ventures Asia (H.K.) Limited, a Hong Kong company incorporated under the laws of Hong Kong which, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, is an independent third party and not a Connected Person (within the meaning of Chapter 8 of the REIT Code) of Prosperity REIT
“REIT”	Real Estate Investment Trust
“REIT Code”	the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified from time to time
“REIT Manager”	ARA Asset Management (Prosperity) Limited, a wholly-owned subsidiary of ARA Asset Management Limited, in its capacity as manager of Prosperity REIT
“Sale Share”	one issued share of the Target Company, to which the entire amount of issued share capital of the Target Company is attributable
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Purchase Agreement”	the agreement for the sale and purchase of the entire issued share capital of the Target Company dated 20 January 2017 entered into between the Vendor, the REIT Manager and the Purchaser, pursuant to which the Vendor, pursuant to the instruction and recommendation of the REIT Manager, agrees to: (i) sell to the Purchaser the Sale Share; and (ii) together with the REIT Manager, procure the assignment of the Loans to the Purchaser, with the rights attaching to it as at and from the Completion Date
“Target Company”	Harbour Champ Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned

	special purpose vehicle of Prosperity REIT which owns the Harbourfront Landmark Property
“Trust Deed”	the trust deed entered into between the Trustee and the REIT Manager constituting Prosperity REIT, dated 29 November 2005 and as amended, varied and supplemented from time to time
“Trustee”	HSBC Institutional Trust Services (Asia) Limited, a company incorporated in Hong Kong, in its capacity as the trustee of Prosperity REIT. All references to the Trustee in this announcement are, as the context may require, to the Trustee acting on behalf of Prosperity REIT and on the instructions of the REIT Manager
“Unit”	one undivided unit in Prosperity REIT
“Unitholder(s)”	any person registered as holding a Unit and any person holding Units through the Central Clearing and Settlement System
“Vendor”	the Trustee (in its capacity as trustee of Prosperity REIT)
“%”	per cent or percentage

By order of the Board
ARA ASSET MANAGEMENT (PROSPERITY) LIMITED
(as manager of Prosperity Real Estate Investment Trust)
Wong Lai Hung, Mavis
Executive Director and Chief Executive Officer

Hong Kong, 20 January 2017

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, Mavis 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.