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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 2010

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 and the fourth supplemental deed dated 23 July 2010 (collectively the "Trust Deed") and made 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 2010 (the "Reporting Period") together with comparative figures for the corresponding period in 2009 as follows:

Performance Highlights

Six months ended 30 June (unaudited)

	<u>2010</u>	<u>2009</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.0555	HK\$0.0554	0.2%

Six months ended 30 June (unaudited)

<u>Operation data</u>	<u>2010</u>	<u>2009</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$133.65 million	HK\$131.23 million	1.8%
Net property income	HK\$105.80 million	HK\$103.64 million	2.1%
Cost-to-revenue ratio	20.8%	21.0%	(0.2%) ¹
Occupancy rate (as at 30 June)	98.3%	93.2%	5.1% ¹
Tenant retention rate	61.3%	60.3%	1.0% ¹
Average effective unit rent	HK\$14.72 per sq. ft.	HK\$14.96 per sq. ft.	(1.6%)

<u>Key financial figures</u>	<u>As at 30 Jun 2010 (unaudited)</u>	<u>As at 31 Dec 2009 (audited)</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$2.48	HK\$2.34	6.0%
Property valuation	HK\$5,529 million	HK\$5,256 million	5.2%
Gearing ratio **	31.7%	33.3%	(1.6%) ¹

** this excludes the origination fees and is calculated based on total borrowings

DISTRIBUTABLE INCOME FOR THE PERIOD

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$74,297,000, representing DPU of HK\$0.0555. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in the Trust Deed) including finance cost of HK\$8,760,000 (equivalent to HK\$0.0065 per unit) due to the interest rate swap, which have been recorded in the condensed consolidated statement of comprehensive income.

¹ Absolute change

DISTRIBUTION

It is the policy of the REIT Manager to distribute to unitholders 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.

The interim DPU is HK\$0.0555, representing an annualized distribution yield of 7.9%, based on the closing unit price of HK\$1.40 as of 30 June 2010.

BUSINESS OVERVIEW

Prosperity REIT continued to perform solidly during the Reporting Period. Revenue and net property income grew by 1.8% and 2.1% respectively in year-on-year ("YoY") terms, resulting in a YoY increase of 0.2% in DPU. Meanwhile, the upward valuation of our property portfolio increased the net asset value per unit to HK\$2.48, as at 30 June 2010. These stable results were made possible due to the REIT Manager's proactive approach to asset management, as well as prudent cost control management.

In light of our satisfactory performance, I am pleased to announce that our unitholders will receive an interim DPU of HK\$0.0555 for the Reporting Period.

MARKET REVIEW

Globally, investors grew worried that the debt crisis in Europe might cause the eurozone's economic recovery to stall, and that it would imperil the recovery of the world economy. Anticipation about contractionary fiscal policies has given rise to some doubts concerning the sustainability of the upturn in the global economy. However, Asia is expected to remain the major focus of the economic revival for the medium term, led by the growth in domestic demand in China, where the Gross Domestic Product grew by 11.1%² in the first half of 2010.

The Hong Kong market sentiment improved during the first half of 2010. This trend was driven by a number of encouraging factors. The city's exports rose by 26.7%³ YoY for the first half of 2010 in terms of value, mainly due to a resurgence in demand for the electronic goods which accounted for 56.5%³ of its total exports. Conditions in the labour market were also rosier than last year, with companies in most sectors being more positive about increasing their headcounts as compared to their counterparts in other Asian markets.

Significant hiring activities in the Hong Kong financial sectors and improving market sentiment boosted demand for office space in the core business district during the first half of 2010. This resulted in a considerable rise in rents in the Central district, and it also encouraged tenants to consider relocating to the decentralized areas. Prosperity REIT's portfolio has benefited from this trend where it is well represented.

² Source: National Bureau of Statistics of China

³ Source: Hong Kong Trade Statistics, Census and Statistics Department

OPERATIONS REVIEW

Prosperity REIT's net property income of HK\$105.80 million and revenue of HK\$133.65 million represented YoY growth of 2.1% and 1.8%, respectively. Prosperity REIT portfolio's occupancy rate improved to 98.3% from 93.2% YoY, and the average effective unit rent was HK\$14.72 per sq. ft. The cost-to-revenue ratio and gearing ratio remained sound at 20.8% and 31.7%, respectively. These encouraging figures were attributable to the REIT Manager's professional management expertise and the effective tenant recruitment strategies which are soundly in place.

PROSPECTS

We believe Prosperity REIT will continue to benefit from the favourable conditions that are currently prevailing in the Hong Kong business environment. In particular, demand in the city's commercial property sector and business confidence is likely to continue growing steadily, barring any unforeseen circumstances. Meanwhile, we will implement more innovative asset enhancement initiatives to add greater value to Prosperity REIT's properties and ensure that our portfolio remains a market leader.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank my colleagues on the Board, as well as our management team, property managers, service providers and partners for their loyalty, integrity, and hard work. They have made invaluable contributions to Prosperity REIT, and I am deeply grateful to them. In addition, I would like to thank our unitholders for their continuing trust and support.

Chiu Kwok Hung, Justin
Chairman
ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT
Hong Kong, 20 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Prosperity REIT owns a diversified portfolio of seven high quality commercial properties in the decentralized business districts of Hong Kong, comprising all or a portion of three Grade A office buildings, three industrial/office buildings and one industrial building. The total gross rentable area is 1,215,579 sq. ft., and there are 407 car park spaces.

Information on the properties in the portfolio, as at 30 June 2010, is as follows:

	Location	Gross rentable area	No. of car park spaces	Valuation
		<i>Sq. ft.</i>		<i>HK\$ Million</i>
Grade A Office				
The Metropolis Tower	Hung Hom	271,418	98	2,055
Prosperity Millennia Plaza	North Point	217,955	43	1,182
Harbourfront Landmark (portion)	Hung Hom	77,021	–	326
Industrial/Office				
Prosperity Place	Kwun Tong	240,000	60	711
Trendy Centre	Cheung Sha Wan	173,764	79	582
Prosperity Center (portion)	Kwun Tong	149,253	105	489
Industrial				
New Treasure Centre (portion)	San Po Kong	86,168	22	184
Total		1,215,579	407	5,529

During the Reporting Period, the general Hong Kong business environment has improved since the global financial crisis in 2008. While rents stabilized in the first half of 2010, Prosperity REIT still experienced a -2.5% rental reversion rate. As Prosperity REIT's tenancies are generally negotiated four to six months prior to expiry of tenancy, a portion of the renewals for the period under review were done in the last quarter of last year for leases that were originally committed to in 2007 and 2008, when rental rates were at a relatively high point.

Nevertheless, as a result of the REIT Manager's proactive marketing and leasing strategies, the occupancy rates staged a strong comeback, increasing by 5.1 percentage points YoY to 98.3%, as at 30 June 2010. Moreover, during the first half of 2010, the tenant retention rate was 61.3% and the portfolio's average effective unit rent remained solid at HK\$ 14.72 per sq. ft.

Prosperity REIT maintained a relatively low cost-to-revenue ratio of 20.8% at the end of the Reporting Period, as the REIT Manager had implemented effective measures to increase efficiency, streamline operations and continue

energy-saving green initiatives. The gearing ratio was a healthy 31.7%, as at 30 June 2010, providing Prosperity REIT with a solid foundation for continued growth.

Investment Review

The REIT Manager assesses acquisition targets against prudent investment criteria, including careful consideration of the potential acquisition to accrete and synergize with the overall portfolio, asset enhancement and organic growth prospects, and long-term outlook of the potential acquisition to provide a growing and recurrent income stream for the unitholders.

Asset Enhancement

Asset enhancement is a key strategy in the REIT Manager's arsenal for upgrading the business environment of Prosperity REIT's tenants. It also helps to achieve continuous growth in rental income, maintain high occupancy rates and tenant retention, and enhance the value of the respective properties.

The REIT Manager has planned and implemented several asset enhancement programmes in Prosperity Place and The Metropolis Tower. Moreover, the REIT Manager continues to endeavor to add value to the portfolio by transforming neglected areas into valuable assets.

Prosperity Place

Prosperity Place is located in the Kwun Tong district of Kowloon East. The district has recently experienced tremendous growth as a new commercial hub. With new Grade A office buildings on the increase and redevelopment projects being carried out, Kowloon East has seen significant urban improvement on a number of fronts, including prominent modern architecture and dynamic shopping malls, as well as leisure and public spaces. In order to capitalize on an expanding pool of potential tenants and to align with the new Grade A office developments in Kowloon East, a refurbishment programme to revamp Prosperity Place (formerly known as Modern Warehouse) into a premium commercial landmark building commenced in 2007. To date, the façade at the lower portion of the building was renovated; the entire entrance glazing on the ground floor was widened with a brighter and more modern grand lobby; the common area corridors were updated; a green living roof garden with renewable energy measures was erected on the rooftop of the building; and a number of energy saving measures were implemented, including lower energy lighting and automatic motion sensors to control lighting in back of house areas. During the Reporting Period, the renovation of all male and female common area washrooms has been in progress and will be completed this year.

Consequently, Prosperity Place has the features and ambience of a modern Grade A commercial tower, and the asset enhancements were well received by tenants and prospective tenants alike.

The Metropolis Tower

The Metropolis Tower is part of a 1.42 million sq. ft. development located in the prime commercial hub of Hung Hom on the Kowloon peninsula which features a popular shopping mall, a hotel, and serviced apartments.

Following the successful opening of the living green roof at Prosperity Place in 2009, The Metropolis Tower followed suit earlier this year with a green roof of its own. The Metropolis Tower green roof features a 4-hole golf putting green, Japanese style bridge and reflection pond, and spectacular Victoria Harbour views from the alfresco vantage point. Being environmentally-friendly, the area also features solar panels, a wind turbine, and a rechargeable battery system to provide ambient lighting on the green roof during the evening hours. The plants and vegetation are irrigated with water from the 1,000-litre rainwater collection system. Tenants have free access to the green roof during designated hours and the area is also available for private hire by tenants for cocktails, meetings, and private functions.

The executive washroom facilities have been upgraded with automatic water faucets, washbasins with nano technology treatment and new water closets. All of these have been completed with the aim of providing an exceptional standard of hygiene for all tenants.

Outlook

Since Prosperity REIT's listing on 16 December 2005, the REIT Manager has been instrumental in effectively managing Prosperity REIT. Prosperity REIT is well-positioned to leverage on the decentralized Grade A office, industrial/office, and industrial markets in Hong Kong, which are expected to further improve in the second half of 2010. With the REIT Manager's extensive experience and managerial expertise, as well as the diligence and professionalism of Goodwell-Prosperity Property Services Limited as Prosperity REIT's property manager, unitholders can confidently expect the 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	34,460	8,832	43,292	34,756
Prosperity Millennia Plaza	22,670	5,741	28,411	22,808
Harbourfront Landmark (portion)	8,317	1,082	9,399	8,300
Industrial/Office				
Prosperity Place	18,164	257	18,421	13,749
Trendy Centre	13,178	2,949	16,127	12,709
Prosperity Center (portion)	11,266	1,422	12,688	9,683
Industrial				
New Treasure Centre (portion)	4,514	799	5,313	3,797
Total	112,569	21,082	133,651	105,802

Revenue

During the Reporting Period, revenue improved to HK\$133.7 million, being HK\$2.5 million or 1.8% higher than the last corresponding half year.

The revenue comprised HK\$112.6 million worth of rental and car park income, plus HK\$21.1 million of rental related income. Rental and car park income was HK\$2.2 million or 2.0% above the last corresponding half year. This increase was mainly due to the increase in average occupancy rate during the Reporting Period.

Net Property Income

The net property income was HK\$105.8 million, exceeding the last corresponding half year by HK\$2.2 million or 2.1%. The cost-to-revenue ratio was 20.8%.

Liquidity and Financing

As at 30 June 2010, Prosperity REIT had a facility of HK\$1,900 million (the “Existing Facilities”), comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility, each for a term of five years expiring on 16 December 2010. The whole term loan facility was fully drawn on the Listing Date and none of the revolving credit facility balance was drawn as at 30 June 2010. The term loan is repayable in five years from the date of the drawdown. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

Each of the term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, Prosperity REIT’s finance company entered into three separate plain vanilla interest rate swap agreements to fix the interest rates for 100% of the HK\$1,770 million term loan until 16 December 2010 at the weighted average swap rate of 2.472%, excluding the spread of 0.49%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT’s gross assets was 31.7% as at 30 June 2010, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 41.3%.

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.

Highlights for financial position

Investment Properties and Property Valuation

For the six months ended 30 June 2010, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$266.8 million, based on a professional valuation performed by an independent valuer, Savills Valuation and Professional Services Limited. The movements of fair values are tabulated below:

	<i>(unaudited)</i>	<i>(audited)</i>
	30 Jun 2010	31 Dec 2009
	HK\$' 000	HK\$' 000
Fair value at beginning of the period/year	5,256,000	4,839,000
Additional expenditure	6,189	11,840
Change in fair value of investment property	266,811	405,160
	-----	-----
Fair value at the end of period/year	5,529,000	5,256,000
	=====	=====

Charges on Assets

As at 30 June 2010, the seven properties of Prosperity REIT, with an aggregate carrying value of HK\$5,483.8 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 facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 9,969,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no purchase, 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, and 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 Tuesday, 19 October 2010 to Friday, 22 October 2010, 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 Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 18 October 2010. The payment date of interim distribution will be on Thursday, 28 October 2010.

REVIEW OF INTERIM RESULTS

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the Reporting Period, on 16 August 2010, Prosperity REIT's finance company has entered into syndicated facility agreements (the "Facilities Agreements") with respect to certain term loan and revolving credit facilities. The Facilities Agreements relate to the provision of a Hong Kong Dollar 5-year term loan and revolving credit facilities of up to an aggregate principal amount of HK\$2,200 million (the "New Facilities") comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility. The New Facilities will bear interest at a floating interest rate of HIBOR plus 0.81% per annum.

The New Facilities will be used for the purposes of refinancing the Existing Facilities and funding the general corporate purposes of Prosperity REIT and its subsidiaries. It is expected that the New Facilities or a part thereof will be drawn on 16 December 2010 to refinance the Existing Facilities.

PUBLIC FLOAT

As far as the REIT Manager is aware of, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2010.

ISSUANCE OF INTERIM REPORT 2010

The Interim Report 2010 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 31 August 2010.

**CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2010

	Note	<i>Unaudited</i>	
		<i>Six months ended 30 June</i>	
		<i>2010</i>	<i>2009</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	133,651	131,230
Property management fees		(3,109)	(3,076)
Property operating expenses		(24,740)	(24,516)
Total property operating expenses		<u>(27,849)</u>	<u>(27,592)</u>
Net property income		105,802	103,638
Interest income		10	89
Manager's fee		(13,872)	(12,755)
Trust and other expenses		(3,129)	(4,076)
Change in fair value of investment properties during the period		266,811	45,411
Finance costs	5	<u>(34,758)</u>	<u>(42,521)</u>
Profit before taxation and transactions with unitholders		320,864	89,786
Taxation	6	<u>(52,758)</u>	<u>(13,752)</u>
Profit for the period, before transactions with unitholders		<u>268,106</u>	<u>76,034</u>
Distribution to unitholders		(74,297)	(73,065)
Profit for the period, after transactions with unitholders		193,809	2,969
Other comprehensive income (expense)			
Change in fair value of derivative financial instruments under cashflow hedge		17,774	(6,246)
Reclassification adjustment in respect of derivative financial instruments under cash flow hedge		6,663	14,591
Total other comprehensive income		<u>24,437</u>	<u>8,345</u>
Total comprehensive income for the period, after transactions with unitholders		<u>218,246</u>	<u>11,314</u>
Income available for distribution to unitholders		<u>74,297</u>	<u>73,065</u>
Basic earnings per unit and diluted earnings per unit (HK\$)	7	0.20	0.06

DISTRIBUTION STATEMENT

For the six months ended 30 June 2010

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period, before transactions with unitholders	268,106	76,034
Adjustments (note (i)):		
Manager's fee	13,848	12,733
Change in fair value of investment properties	(266,811)	(45,411)
Finance costs	8,760	16,522
Deferred tax	50,394	13,187
	<hr/>	<hr/>
Income available for distribution	74,297	73,065
Distribution to unitholders:		
For the six months ended 30 June	74,297	73,065
	<hr/>	<hr/>
Distribution per unit (HK\$) (note (ii))	0.0555	0.0554
	<hr/>	<hr/>

Notes:

(i) These adjustments for the half year include:

- (a) manager's fee paid and payable in units of HK\$13,848,000 (2009: HK\$12,733,000) out of the total manager's fee of HK\$13,872,000 (2009: HK\$12,755,000) (the difference of HK\$24,000 (2009: HK\$22,000) is paid in cash);
- (b) increase in fair value of investment properties of HK\$266,811,000 (2009: HK\$45,411,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$34,758,000 (2009: HK\$42,521,000) less cash finance cost of HK\$25,998,000 (2009: HK\$25,999,000); and
- (d) deferred tax provision of HK\$50,394,000 (2009: HK\$13,187,000).

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 comprehensive income for the relevant financial period.

(ii) The DPU of HK\$0.0555 (2009: HK\$0.0554) is calculated based on Prosperity REIT's income available for distribution of HK\$74,297,000 (2009: HK\$73,065,000) over 1,338,387,711 units (2009: 1,318,720,913 units), representing units as at 30 June 2010 plus the number of units issued after the distribution period to the REIT Manager as Manager's fee for its service in the second quarter of 2010.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		<i>(unaudited)</i> 30 Jun 2010	<i>(audited)</i> 31 Dec 2009
	<i>Notes</i>	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		5,529,000	5,256,000
Current assets			
Trade and other receivables	8	8,274	8,235
Tax recoverable		292	393
Bank balances and cash		52,882	53,373
Total current assets		61,448	62,001
Total assets		5,590,448	5,318,001
Non-current liabilities, excluding net assets attributable to unitholders			
Deferred tax liabilities		315,679	265,285
Current liabilities			
Trade and other payables	9	116,105	114,858
Amounts due to related companies		7,941	6,920
Secured term loan	10	1,767,971	1,765,873
Derivative financial instruments		17,578	35,352
Provision for taxation		2,716	1,347
Manager's fee payable		7,076	6,835
Distribution payable		74,297	72,300
Total current liabilities		1,993,684	2,003,485
Total liabilities, excluding net assets attributable to unitholders		2,309,363	2,268,770
Net assets attributable to unitholders		3,281,085	3,049,231
Units in issue ('000)	<i>11</i>	1,333,551	1,323,582
Net asset value per unit (HK\$)	<i>12</i>	2.48	2.34

Notes

(1) Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical 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 are consistent with those followed in the preparation of Prosperity REIT's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, Prosperity REIT has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

Prosperity REIT applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by Prosperity REIT on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of Prosperity REIT for the current or prior accounting periods.

Results of Prosperity REIT in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no material effect on the condensed consolidated financial statements of Prosperity REIT for the current or prior accounting periods.

Prosperity REIT has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

(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”.

(3) Revenue of Prosperity REIT is as follows:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rental from investment properties		
Rental income	104,272	102,763
Car park income	8,297	7,659
	<hr/>	<hr/>
	112,569	110,422
Rental related income	21,082	20,808
	<hr/>	<hr/>
	133,651	131,230
	<hr/>	<hr/>

(4) Segment information

Prosperity REIT is currently investing in seven commercial properties 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 Prosperity REIT reports its segment information and is presented below:

Six months ended 30 June 2010 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	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>
Segment revenue in Hong Kong	43,292	28,411	9,399	18,421	16,127	12,688	5,313	133,651
Segment profit	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	34,756	22,808	8,300	13,749	12,709	9,683	3,797	105,802
Interest income								10
Manager's fee								(13,872)
Trust and other expenses								(3,129)
Change in fair value of investment properties								266,811
Finance costs								(34,758)
Profit before taxation and transactions with unitholders								<hr/>
								320,864
								<hr/>

Six months ended 30 June 2009 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	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>
Segment revenue in Hong Kong	43,586	24,518	9,398	19,041	16,600	12,628	5,459	131,230
Segment profit	34,608	17,944	8,358	15,077	13,678	9,483	4,490	103,638
Interest income								89
Manager's fee								(12,755)
Trust and other expenses								(4,076)
Change in fair value of investment properties								45,411
Finance costs								(42,521)
Profit before taxation and transactions with unitholders								89,786

Segment profit or net property income is the measure reported to the REIT Manager for the purposes of resource allocation and performance assessment.

(5) Finance costs:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on		
- Secured term loan	7,587	15,871
- Reclassification adjustment in respect of derivative financial instruments under cash flow hedge	6,663	14,591
- Equalisation of interest expense through cashflow hedge	20,508	12,059
	34,758	42,521

(6) Taxation:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	2,364	565
Deferred tax	50,394	13,187
	52,758	13,752

The income tax expense is recognised based on management's best estimate of the income tax rate expected for the full financial year. 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 using the estimated tax rate.

- (7) The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$268,106,000 (2009: HK\$76,034,000) and by the weighted average of 1,329,505,992 (2009: 1,307,234,450) units in issue during the period. The diluted earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$268,106,000 (2009: HK\$76,034,000) by the weighted average units issued during the period together with the effects of potential units (units issued for manager's fee) of 1,330,721,928 (2009: 1,312,835,251).

- (8) Trade and other receivables at the end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2010 HK\$'000	<i>(audited)</i> 31 Dec 2009 HK\$'000
Trade receivables	693	773
Deposits and prepayments	7,580	7,462
Other receivables	1	-
	8,274	8,235
	8,274	8,235

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

	<i>(unaudited)</i> 30 Jun 2010 HK\$'000	<i>(audited)</i> 31 Dec 2009 HK\$'000
Current – 1 month	620	686
2 – 3 months	-	87
Over 3 months	73	-
	693	773
	693	773

(9) Trade and other payables at the end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2010 HK\$'000	<i>(audited)</i> 31 Dec 2009 HK\$'000
Trade payables	1,514	2,453
Tenants' deposits		
- Outside parties	73,923	72,660
- Related parties	460	460
Rental received in advance – Outside parties	1,741	1,876
Other payables	38,467	37,409
	<u>116,105</u>	<u>114,858</u>

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

	<i>(unaudited)</i> 30 Jun 2010 HK\$'000	<i>(audited)</i> 31 Dec 2009 HK\$'000
Current – 1 month	535	998
2 – 3 months	524	1,063
Over 3 months	455	392
	<u>1,514</u>	<u>2,453</u>

(10) Secured term loan:

	<i>(unaudited)</i> 30 Jun 2010 HK\$'000	<i>(audited)</i> 31 Dec 2009 HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(2,029)	(4,127)
	<u>1,767,971</u>	<u>1,765,873</u>

(11) Issued Units

	Number of units	HK\$'000
Balance at 1 January 2010	1,323,581,882	2,799,290
Payment of Manager's base fee and variable fee through issuance of new units during the period	9,968,812	13,608
Balance at 30 June 2010	<u>1,333,550,694</u>	<u>2,812,898</u>

- (12) The net asset value per unit is calculated based on the net assets of Prosperity REIT excluding hedging reserve of HK\$20,199,000 (31 December 2009: HK\$44,636,000) and the total number of 1,333,550,694 units in issue at 30 June 2010 (31 December 2009: 1,323,581,882).
- (13) As at 30 June 2010, Prosperity REIT's net current liabilities, defined as current liabilities less current assets, amounted to HK\$1,932,236,000 (31 December 2009: HK\$1,941,484,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$3,596,764,000 (31 December 2009: HK\$3,314,516,000).
- (14) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager and by Prosperity REIT's auditors, 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.

The directors of the REIT Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Mr. Stephen Henry Chu as Executive Director; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Robert Douglas Pope as Independent Non-executive Directors.