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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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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**") 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 on 16 December 2005 ("**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 audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2010 together with comparative figures for the corresponding period in 2009 as follows:

Performance Highlights

	<u>Year ended 31 Dec 2010</u>	<u>Year ended 31 Dec 2009</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.1101	HK\$0.1098	0.3%

<u>Operation data</u>	<u>Year ended 31 Dec 2010</u>	<u>Year ended 31 Dec 2009</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$270.1 million	HK\$263.6 million	2.5%
Net property income	HK\$212.5 million	HK\$206.9 million	2.7%
Cost-to-revenue ratio	21.3%	21.5%	(0.2%) ¹
Occupancy rate (as at 31/12)	99.5%	97.4%	2.1% ¹
Tenant retention rate	64.5%	61.8%	2.7% ¹
Average effective unit rent	HK\$14.67 per sq. ft.	HK\$14.92 per sq. ft.	(1.7%)

<u>Key financial figures</u>	<u>As at 31 Dec 2010</u>	<u>As at 31 Dec 2009</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$2.70	HK\$2.34	15.4%
Property valuation	HK\$5,934 million	HK\$5,256 million	12.9%
Gearing ratio **	30.1%	33.3%	(3.2%) ¹

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

DISTRIBUTABLE INCOME

The annual distributable income of Prosperity REIT for the year from 1 January 2010 to 31 December 2010 (the “**Reporting Year**”) amounted to HK\$147.8 million. The annual distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and its subsidiaries for that distribution period, after provision for tax and as adjusted to eliminate the effects of adjustments (as defined in the Trust Deed) including the finance cost of HK\$13.8 million (equivalent to HK\$0.01 per unit) due to the interest rate swap, all of which have been recorded in the consolidated statement of comprehensive income.

¹ Absolute change

DISTRIBUTION

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2010. 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 distributable income for the half year from 1 July 2010 to 31 December 2010 is HK\$73.5 million, equivalent to a DPU of HK\$0.0546. The interim DPU from 1 January 2010 to 30 June 2010 was HK\$0.0555, and the total DPU for the Reporting Year is HK\$0.1101, which represents a distribution yield of 6.3%². The DPU increased 0.3% year-on-year ("YoY") mainly due to the additional net property income earned in the Reporting Year, as a result of the increased revenue.

The distribution for the half year from 1 July 2010 to 31 December 2010 will be paid on Thursday, 28 April 2011.

RESULTS

Prosperity REIT delivered a satisfactory performance in 2010, in spite of the lingering effects of the global financial crisis.

Total distribution per unit ("DPU") to unitholders increased by 0.3% as revenue and net property income improved by 2.5% and 2.7% respectively, YoY. Prosperity REIT's property valuation rose by 12.9% YoY to an all-time high and the net asset value per unit grew to HK\$2.70.

I am pleased to announce that our unitholders will receive a total distribution per unit of HK\$0.1101 for the Reporting Year. This represents a distribution yield of 6.3%².

MARKET REVIEW

While the global economy continued to regain strength in 2010 following the repercussions of the financial crisis, the pace of this recovery has alternated in different parts of the world. Asian economies seemed to have recuperated faster in comparison to other Western economies, like the United States and Europe, where the unemployment rate remained relatively high.

² Based on Prosperity REIT's closing unit price of HK\$1.76 on 31 December 2010

The Mainland enjoyed growth with its gross domestic product increasing by 10.6%³ for the first three quarters of the year. Meanwhile, Hong Kong's unemployment rate for the three-month period ending December 2010 was an encouraging 4.0%⁴. The local recovery was particularly noticeable in the trading sector, boosted by domestic demand on the Mainland. Re-exports experienced a rebound, peaking in August 2010 and rising 36%⁴ YoY. This upswing generated positive effects for Prosperity REIT, as many of its tenants are in the trading business.

The financial sector's continued growth has driven demand for office expansion and more office space is required to accommodate the additional headcount. Given the limited supply of office space in the territory, rental rates are expected to be driven up by market forces. Office relocation to decentralized business districts is anticipated to continue, benefitting areas where Prosperity REIT's portfolio is located.

OPERATIONS REVIEW

Prosperity REIT recorded steady results for the Reporting Year. In 2010, total revenue reached HK\$270.1 million while net property income rose to HK\$212.5 million, an increase of 2.5% and 2.7% YoY, respectively.

Prosperity REIT's overall portfolio occupancy rate continued to improve throughout the year, climbing to a record high of 99.5% as at 31 December 2010, and the average effective unit rent was HK\$14.67 per sq. ft..

As a result of our proactive management approach and effective tenant recruitment strategies, Prosperity REIT achieved a 64.5% tenant retention rate throughout the Reporting Year, while the cost-to-revenue ratio and gearing ratio maintained healthy rates of 21.3% and 30.1%, respectively.

In line with our practice of financial prudence, we made two financial arrangements during the year. We successfully entered into new term loan and revolving credit facility agreements, totalling HK\$2,200 million. We also took a prudent approach to managing the risk in fluctuation of interest rates by entering a plain vanilla swap for 80% of Prosperity REIT's term loan.

With these two arrangements in place, our finance costs will be reduced in the years to come. These actions will help to mitigate the uncertainties associated with floating interest rates and our unitholders will benefit from stable distributions.

³ Source: National Bureau of Statistics of China

⁴ Source: Trade and Industry Department of HKSAR

PROSPECTS

Looking forward, we believe that Prosperity REIT will benefit from the recovering economy. As the local unemployment rate continues to fall and business improves overall, demand for office space is poised for steady growth. Prosperity REIT will continue with its prudent and proactive approach in optimizing returns, while endeavouring to provide tenants with the best service to uphold a strong tenant relationship and increase the tenant retention rate.

Asset enhancement measures will continue to be implemented to add value to Prosperity REIT's properties. In doing so, we are always conscientious of a greener world with our share of contribution. Further to our various "living green roof" initiatives, the REIT Manager will continue to incorporate green features at the properties in our portfolio.

Through strengthened tenant relations, effective asset enhancements, well-planned business strategies and prudent cost controls, we are committed to delivering steady returns to unitholders in the coming years.

ACKNOWLEDGEMENT

I would like to express my deep gratitude to my colleagues on the Board, our management team, property managers, service providers and business partners for their invaluable contributions in generating solid results during the Reporting Year.

I would also like to take this opportunity to thank The Hong Kong Institute of Directors for including me amongst the "Directors of the Year Awards" recipients in 2010. I am honoured to receive this distinction and will continue to work in the interest of the Prosperity REIT unitholders.

Lastly, I would like to thank you, our unitholders, for your continued trust, support and confidence in Prosperity REIT.

Chiu Kwok Hung, Justin

Chairman

**ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT**

Hong Kong, 25 February 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Prosperity REIT owns a geographically diverse portfolio of seven 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., with a total of 407 car park spaces.

Information on the portfolio of properties as at 31 December 2010 is 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	Hunghom	271,418	98	2,225	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	1,276	99.5%
Harbourfront Landmark (portion)	Hunghom	77,021	–	344	100.0%
Industrial/Office					
Prosperity Place	Kwun Tong	240,000	60	767	98.8%
Trendy Centre	Cheung Sha Wan	173,764	79	623	98.9%
Prosperity Center (portion)	Kwun Tong	149,253	105	504	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	195	100.0%
Total		1,215,579	407	5,934	99.5%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 99.5% was recorded as at 31 December 2010, reflecting the effectiveness of those progressive and effective leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio maintained at a relatively low level of 21.3 %.

	Occupancy rate (%)	Occupancy rate (%)	Percentage change* Increase/(Decrease)
Grade A Office	<i>As at 31 Dec 10</i>	<i>As at 31 Dec 09</i>	
The Metropolis Tower	100.0	98.5	1.5%
Prosperity Millennia Plaza	99.5	98.6	0.9%
Harbourfront Landmark (portion)	100.0	100.0	-
Industrial/Office			
Prosperity Place	98.8	96.5	2.3%
Trendy Centre	98.9	93.8	5.1%
Prosperity Center (portion)	100.0	98.0	2.0%
Industrial			
New Treasure Centre (portion)	100.0	97.2	2.8%
Portfolio	99.5	97.4	2.1%

* Absolute change

Investment Review

The REIT Manager will implement its acquisition strategy prudently and will only assess potential targets which will be beneficial to Prosperity REIT and unitholders as a whole. In May 2008, Prosperity REIT obtained unitholders' approval to expand its scope of acquisition coverage to invest in office, commercial and retail properties, with no geographical restrictions. The REIT Manager is now enjoying the flexibility in taking advantages of emerging investment opportunities to facilitate growth when appropriate opportunities arise.

Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. This approach is demonstrated by the extensive improvements at Prosperity Place and The Metropolis Tower in 2010. Asset enhancement initiatives will continue in 2011 across the entire portfolio, with prudently planned payback periods.

Outlook

Since the listing on 16 December 2005, Prosperity REIT has achieved favourable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under Prosperity REIT's portfolio, the REIT Manager will continue to work towards generating reasonable returns to the unitholders in 2011 through our proven expertise in professional management.

Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	69,665	18,028	87,693	70,336
Prosperity Millennia Plaza	44,903	12,317	57,220	45,598
Harbourfront Landmark (portion)	16,637	2,161	18,798	16,508
Industrial/Office				
Prosperity Place	37,002	332	37,334	28,001
Trendy Centre	27,179	5,925	33,104	25,153
Prosperity Center (portion)	22,541	2,829	25,370	19,313
Industrial				
New Treasure Centre (portion)	8,962	1,613	10,575	7,622
Total	<u>226,889</u>	<u>43,205</u>	<u>270,094</u>	<u>212,531</u>

Revenue

During the Reporting Year, revenue was HK\$270.1 million, which comprised HK\$226.9 million worth of rental and car park income, plus HK\$43.2 million of rental related income. Rental and car park income was HK\$2.0 million, or 4.9% above that of 2009.

Net Property Income

The net property income was HK\$212.5 million and the cost-to-revenue ratio was 21.3%. The REIT Manager continues to implement effective cost control measures.

Liquidity and Financing

As at 31 December 2010, Prosperity REIT had facilities in 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\$26,000,000 was drawn as at 31 December 2010. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving 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 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 rates for 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 30.1% as at 31 December 2010, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 39.8%.

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

Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$670.2 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:

	31 Dec 2010	31 Dec 2009
	HK\$' 000	HK\$' 000
Fair value at beginning of the financial year	5,256,000	4,839,000
Additional expenditure	7,793	11,840
Increase in fair value during the year	670,207	405,160
	-----	-----
Fair value at the end of year	5,934,000	5,256,000
	=====	=====

Charges on Assets

As at 31 December 2010, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,887.6 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\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 19,055,000 units by the REIT Manager which the REIT Manager 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, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the "**Compliance Manual**") for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT will be set out in the Annual Report of Prosperity REIT for the Reporting Year. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Friday, 15 April 2011 to Wednesday, 20 April 2011, 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, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 14 April 2011. The payment date of the final distribution will be on Thursday, 28 April 2011.

REVIEW OF FINAL RESULTS

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

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 31 December 2010.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Saturday, 30 April 2011.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 27 May 2011. Notice of the annual general meeting will be published and issued to unitholders in due course.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i>	<i>2009</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	270,094	263,624
Property management fees		(6,263)	(6,169)
Property operating expenses		(51,300)	(50,555)
Total property operating expenses		(57,563)	(56,724)
Net property income		212,531	206,900
Interest income		30	148
Manager's fee		(28,631)	(26,080)
Trust and other expenses		(6,801)	(7,344)
Increase in fair value of investment properties		670,207	405,160
Finance costs	5	(65,497)	(81,518)
Profit before taxation and transactions with unitholders		781,839	497,266
Taxation	6	(129,282)	(75,439)
Profit for the year, before transactions with unitholders		652,557	421,827
Distribution to unitholders		(147,831)	(145,365)
Profit for the period, after transactions with unitholders		504,726	276,462
Other comprehensive income			
Change in fair value of cashflow hedge		3,041	(2,847)
Reclassification adjustment in respect of cash flow hedge		9,284	25,111
Total other comprehensive income		12,325	22,264
Total comprehensive income for the year, after transactions with unitholders		517,051	298,726
Income available for distribution to unitholders		147,831	145,365
Basic earnings per unit and diluted earnings per unit (HK\$)	7	0.49	0.32

DISTRIBUTION STATEMENT

For the year ended 31 December 2010

	2010	2009
	HK\$'000	HK\$'000
Profit for the year, before transactions with unitholders	652,557	421,827
Adjustments:		
Manager's fee	28,582	26,034
Increase in fair value of investment properties	(670,207)	(405,160)
Finance costs	13,844	29,091
Deferred tax	123,055	73,573
	<hr/>	<hr/>
Income available for distribution (note (i))	147,831	145,365
	<hr/> <hr/>	<hr/> <hr/>
Distributions to unitholders:		
HK\$0.0555 (2009: HK\$0.0554) per unit for the six months ended 30 June (note (ii))	74,297	73,065
HK\$0.0546 (2009: HK\$0.0544) per unit for the six months ended 31 December (note (iii))	73,534	72,300
	<hr/>	<hr/>
	147,831	145,365
	<hr/> <hr/>	<hr/> <hr/>
Total distribution per unit (HK\$)	0.1101	0.1098
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) These adjustments for the current year include:
- (a) Manager's fee paid in units of HK\$28,582,000 (2009: HK\$26,034,000) out of the total Manager's fee of HK\$28,631,000 (2009: HK\$26,080,000) (the difference of HK\$49,000 (2009: HK\$46,000) are paid in cash);
 - (b) increase in fair value of investment properties of HK\$670,207,000 (2009: HK\$405,160,000);
 - (c) adjustment in respect of the difference between the accounting finance cost of HK\$65,497,000 (2009: HK\$81,518,000) less cash finance cost of HK\$51,653,000 (2009: HK\$52,427,000); and
 - (d) deferred tax provision of HK\$123,055,000 (2009: HK\$73,573,000).

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 year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of comprehensive income for the relevant financial year.

- (ii) The distribution per unit of HK\$0.0555 (2009: HK\$0.0554) for the six months ended 30 June 2010 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 (30 June 2009: 1,318,720,913 units), representing issued 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. The distribution was paid to unitholders on 28 October 2010.

- (iii) The distribution per unit of HK\$0.0546 (2009: HK\$0.0544) for the six months ended 31 December 2010 is calculated based on Prosperity REIT's income available for distribution of HK\$73,534,000 (2009: HK\$72,300,000) over 1,346,635,755 units (2009: 1,328,682,612 units), representing issued units as at 31 December 2010 plus the number of units issued after the distribution period to the REIT Manager as Manager's fee for its service in the last quarter of the relevant distribution year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		5,934,000	5,256,000
Current assets			
Trade and other receivables	8	8,002	8,235
Tax recoverable		261	393
Bank balances and cash		29,832	53,373
Total current assets		38,095	62,001
Total assets		5,972,095	5,318,001
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		32,311	-
Secured term loan	10	1,723,933	-
Deferred tax liabilities		388,340	265,285
Total non-current liabilities, excluding net assets attributable to unitholders		2,144,584	265,285
Current liabilities			
Trade and other payables	9	115,095	114,858
Amount due to related companies		8,113	6,920
Secured term loan	10	-	1,765,873
Secured revolving loan		26,000	-
Derivative financial instruments		-	35,352
Provision for taxation		3,069	1,347
Manager's fee payable		7,577	6,835
Distribution payable		73,534	72,300
Total current liabilities		233,388	2,003,485
Total liabilities, excluding net assets attributable to unitholders		2,377,972	2,268,770

Net assets attributable to unitholders		3,594,123	3,049,231
		<hr/>	<hr/>
Units in issue ('000)	11	1,342,637	1,323,582
		<hr/>	<hr/>
Net asset value per unit (HK\$) attributable to unitholders	12	2.70	2.34
		<hr/>	<hr/>

Notes

(1) Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, Prosperity REIT has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements of Prosperity REIT.

HKFRS 3 (as revised in 2008) Business Combinations and HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements.

Prosperity REIT applies HKFRS 3 (as revised in 2008) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (as revised in 2008) 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 period in which HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) are applicable, the application of HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) had no effect on the 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 (as revised in 2008), HKAS 27 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

Prosperity REIT has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

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

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

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either 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.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The REIT Manager anticipate that HKFRS 9 will be adopted in Prosperity REIT's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of Prosperity REIT's financial assets and financial liabilities.

The amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

If the presumption is not rebutted, the REIT Manager anticipates that the application of the amendments to HKAS 12 for investment properties that are measured using fair value model will result in the elimination of the entire carrying amount of the deferred tax liabilities in respect of revaluation of investment properties and a corresponding adjustments to be recognised in retained earnings as the entire carrying amount of the deferred tax liabilities as at 31 December 2010 in respect of revaluation of investment properties were estimated based on recovery of the investment properties through use. Prosperity REIT has not early applied these amendments and deferred tax has been provided for in respect of changes in fair value of such properties.

The REIT Manager anticipates that the application of the other new and revised Standards, Amendments and Interpretations will have no material impact on the consolidated financial statements of Prosperity REIT.

(2) Significant Accounting Policies

Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Future Commission and the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 of Prosperity REIT, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT. Control is achieved where Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

(3) Revenue:

	2010	2009
	HK\$'000	HK\$'000
Gross rental from investment properties:		
Rental income	209,683	206,794
Car park income	17,206	15,650
	<u>226,889</u>	<u>222,444</u>
Rental related income	43,205	41,180
	<u>270,094</u>	<u>263,624</u>

(4) Segment information

Prosperity REIT is currently investing in seven commercial properties located in Hong Kong, namely The Metropolis Tower, Prosperity Millennium 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:

For the year ended 31 December 2010

	The Metropolis Tower	Prosperity Millennium 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	87,693	57,220	18,798	37,334	33,104	25,370	10,575	270,094
Segment profit	<u>70,336</u>	<u>45,598</u>	<u>16,508</u>	<u>28,001</u>	<u>25,153</u>	<u>19,313</u>	<u>7,622</u>	<u>212,531</u>
Interest income								30
Manager's fee								(28,631)
Trust and other expenses								(6,801)
Increase in fair value of investment properties								670,207
Finance costs								(65,497)
Profit before taxation and transactions with unitholders								<u>781,839</u>

For the year ended 31 December 2009

	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	87,933	50,261	18,798	38,210	32,545	25,030	10,847	263,624
Segment profit	69,268	37,346	16,616	29,472	26,695	19,120	8,383	206,900
Interest income								148
Manager's fee								(26,080)
Trust and other expenses								(7,344)
Increase in fair value of investment properties								405,160
Finance costs								(81,518)
Profit before taxation and transactions with unitholders								497,266

Segment profit or net property income is the measure reported to the REIT Manager, being the chief operating decision maker, for the purposes of resource allocation and performance assessment.

(5) Finance costs:

	2010 HK\$'000	2009 HK\$'000
Interest expense on		
Secured term loan	17,479	24,595
Release of hedging reserve	9,284	25,111
Equalisation of interest expense through cashflow hedges	38,717	31,812
	65,480	81,518
Secured revolving loan	17	-
	65,497	81,518

(6) Taxation:

	2010	2009
	HK\$'000	HK\$'000
Current tax	6,227	1,866
Deferred tax	123,055	73,573
	<u>129,282</u>	<u>75,439</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profits tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits for the year or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences using the current applicable rates.

- (7) The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$652,557,000 (2009: HK\$421,827,000) by the weighted average of 1,334,319,173 (2009: 1,313,406,331) units in issue during the year. The diluted earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$652,557,000 (2009: HK\$421,827,000) by the weighted average units in issue during the year of 1,334,319,173 (2009: 1,313,406,331) units together with the effects of potential units (units issued for manager's fee) of 498,515, amounting to 1,334,817,688 (2009: 1,314,019,163) units in aggregate.

(8) Trade and other receivables:

	2010	2009
	HK\$'000	HK\$'000
Trade receivables	376	773
Deposit and prepayments	7,626	7,462
	<u>8,002</u>	<u>8,235</u>

Ageing analysis of Prosperity REIT's trade receivables is as follows:

	2010	2009
	HK\$'000	HK\$'000
Current – 1 month	223	686
2 – 3 months	153	87
	<u>376</u>	<u>773</u>

(9) Trade and other payables:

	2010	2009
	HK\$'000	HK\$'000
Trade payables	562	2,453
Tenants' deposits		
- Outside parties	76,165	72,660
- Related parties	411	460
Rental received in advance – Outside parties	1,430	1,876
Other payables	36,527	37,409
	<u>115,095</u>	<u>114,858</u>

Ageing analysis of Prosperity REIT's trade payables is as follows:

	2010	2009
	HK\$'000	HK\$'000
Current – 1 month	249	998
2 – 3 months	186	1,063
Over 3 months	127	392
	<u>562</u>	<u>2,453</u>

(10) Borrowings:

	2010	2009
	HK\$'000	HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(46,067)	(4,127)
	<u>1,723,933</u>	<u>1,765,873</u>
Secured revolving loan	26,000	-
	<u>1,749,933</u>	<u>1,765,873</u>
Carrying amount repayable:		
Within one year	26,000	1,765,873
More than one year, but not exceeding five years	1,723,933	-
	<u>1,749,933</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 year	19,054,800	27,841
Balance at 31 December 2010	<u>1,342,636,682</u>	<u>2,827,131</u>

(12) The net asset value per unit is calculated based on the net assets attributable to unitholders of Prosperity REIT excluding hedging reserve and the total number of 1,342,636,682 units in issue as at 31 December 2010 (1,323,581,882 units in issue as at 31 December 2009).

(13) For the year ended 31 December 2010, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$195,293,000 (2009: HK\$1,941,484,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$5,738,707,000 (2009: HK\$3,314,516,000).

(14) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

(15) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.

The directors of the REIT Manager as at the date of this announcement are 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.