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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 2011

Prosperity Real Estate Investment Trust ("**Prosperity REIT**") is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011 (collectively, the "**Trust Deed**") between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "**REIT Manager**"), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector real estate investment trust ("**REIT**") to list on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 December 2005 (the "**Listing Date**"). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2011 (the "Reporting Year") together with comparative figures for the corresponding period in 2010 as follows:

Performance Highlights

	<u>Year ended</u> <u>31 Dec 2011</u>	<u>Year ended</u> <u>31 Dec 2010</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.1202	HK\$0.1101	9.2%

<u>Key financial figures</u>	<u>As at 31 Dec 2011</u>	<u>As at 31 Dec 2010</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$3.29	HK\$2.70	21.9%
Property valuation	HK\$6,991 million	HK\$5,934 million	17.8%
Gearing ratio *	25.6%	30.1%	(4.5%) ¹

<u>Operation data</u>	<u>Year ended</u> <u>31 Dec 2011</u>	<u>Year ended</u> <u>31 Dec 2010</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$275.6 million	HK\$270.1 million	2.0%
Net property income	HK\$211.5 million	HK\$212.5 million	(0.5%)
Average effective unit rent	HK\$15.05 per sq. ft.	HK\$14.67 per sq. ft.	2.6%
Occupancy rate <i>(as at 31 Dec)</i>	98.8%	99.5%	(0.7%) ¹
Tenant retention rate	66.9%	64.5%	2.4% ¹
Rental reversion rate	14.8%	(0.8%)	15.6% ¹
Cost-to-revenue ratio	23.3%	21.3%	2.0% ¹

* This excludes the origination fees and is calculated by dividing total borrowings over total assets.

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 2011. 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.

BUSINESS OVERVIEW

Prosperity REIT delivered solid results in 2011. Revenue and income available for distribution grew by 2.0% and 10.6% respectively year-on-year (“YoY”). Correspondingly, total distribution per unit to unitholders increased by 9.2%. These outstanding achievements were attributable to the management’s astute policies which led to a significant reduction in finance costs and a strong rental reversion rate.

During the Reporting Year, as a result of our strong business fundamentals, the value of Prosperity REIT’s assets reached a record high after a YoY increase of approximately 17.8%. Net asset value per unit also surged to HK\$3.29.

I am therefore pleased to announce that our unitholders will receive a total distribution of HK\$0.1202 per unit for the Reporting Year. This represents a distribution yield of 8.0%² per unit.

MARKET REVIEW

The world economy faced a panoply of challenges in 2011. Headwinds that buffeted the global economy became considerably stronger in the second half of the year when Greece’s sovereign debt crisis prompted concerns over the solvency of other European Union governments. Across the Atlantic, the United States had its credit rating downgraded; economic data in the United States and China are also showing signs of slowing down.

Despite the uncertain external market conditions, our property portfolio's strong business fundamentals enabled us to achieve satisfactory results for this Reporting Year. We continued to benefit from the strength of China's foreign trade. Large percentages of our tenants are companies focusing on Asian markets, and they have remained relatively resilient amid the volatile market.

Prosperity REIT is benefiting from the strategic locations of our properties. The Hong Kong SAR Government announced its plan to redevelop the area around the former Kai Tak Airport in Kowloon East into a core business and commercial district. We are well positioned to leverage the anticipated increase in property prices and rental incomes in the district.

² Based on Prosperity REIT's closing unit price of HK\$1.50 as at 30 December 2011.

OPERATIONS REVIEW

Prosperity REIT achieved satisfactory operating results for the Reporting Year. Total revenue amounted to HK\$275.6 million, a YoY increase of 2.0%.

As at 31 December 2011, Prosperity REIT's portfolio occupancy rate remained stable at 98.8%, while the average effective unit rent of the portfolio increased considerably from HK\$14.67 per sq. ft. to HK\$15.05 per sq. ft.

Our management's proactive leasing approach and effective tenant recruitment strategies enabled us to increase our tenant retention rate from 64.5% in 2010 to 66.9% during the Reporting Year.

Prosperity REIT continued to benefit from stable financing costs achieved by the term loan and revolving credit facility agreements that it entered into in 2010 when interest rates were relatively low. Our management's unwavering commitment to the unitholders has paid off with a healthy cost-to-revenue ratio and a gearing ratio of 23.3% and 25.6% respectively.

PROSPECTS

Looking ahead, we expect the Hong Kong and global economy to continue to experience the fallout from market uncertainty. However, Asia's stable fundamentals are likely to cushion this economic pressure to a certain extent.

Prosperity REIT is managed by a team of experienced asset management professionals of high calibre and, since its listing in 2005, has a long-term track record of delivering a stable distribution to our unitholders. We are cautiously optimistic that we will continue to deliver positive results in 2012.

We will not allow ourselves to become complacent. To generate greater value for both our tenants and our unitholders, we will continue to maintain a prudent approach in all our operations, while pushing ahead with our ongoing property enhancement programmes.

ACKNOWLEDGEMENT

Finally, I would like to thank everyone who has contributed to another year of solid results for Prosperity REIT. In particular, I would like to acknowledge my fellow board members, our management team, staff, service providers and business partners for their invaluable contributions. Last but not least, I would like to express my appreciation to you, our unitholders, for your support and confidence in Prosperity REIT.

Chiu Kwok Hung, Justin

Chairman

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

Hong Kong, 20 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Prosperity REIT owns a diverse portfolio of seven commercial properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, 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 2011 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	Hung Hom	271,418	98	2,508	98.5%
Prosperity Millennia Plaza	North Point	217,955	43	1,480	100.0%
Harbourfront Landmark (portion)	Hung Hom	77,021	–	397	100.0%
Industrial/Office					
Prosperity Place	Kwun Tong	240,000	60	1,006	98.8%
Trendy Centre	Lai Chi Kok	173,764	79	732	96.3%
Prosperity Center (portion)	Kwun Tong	149,253	105	636	99.2%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	232	100.0%
Total		1,215,579	407	6,991	98.8%

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 98.8% was recorded as at 31 December 2011, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 23.3%.

	Occupancy rate (%)	Occupancy rate (%)	Percentage change³ Increase/(Decrease)
Grade A Office	<i>As at 31 Dec 2011</i>	<i>As at 31 Dec 2010</i>	
The Metropolis Tower	98.5	100.0	(1.5%)
Prosperity Millennia Plaza	100.0	99.5	0.5%
Harbourfront Landmark (portion)	100.0	100.0	-
Industrial/Office			
Prosperity Place	98.8	98.8	-
Trendy Centre	96.3	98.9	(2.6%)
Prosperity Center (portion)	99.2	100.0	(0.8%)
Industrial			
New Treasure Centre (portion)	100.0	100.0	-
Portfolio	98.8	99.5	(0.7%)

Investment Review

In light of current economic uncertainties, 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 through yield-accretive acquisitions and asset enhancement when appropriate opportunities arise.

³ Absolute change

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, Trendy Centre, Prosperity Center and Prosperity Millennia Plaza in 2011. Asset enhancement initiatives will continue in 2012 across the entire portfolio, with prudently planned payback periods.

Prosperity Place

Prosperity Place is located in the Kwun Tong district of Kowloon East, an area which has rapidly grown into an important new commercial hub. In 2008, the REIT Manager began a project to refurbish and upgrade the building in order to counteract the intense competition from the new office buildings in the vicinity. In 2011, the renovation of passenger lift cars and upgrading of lift controller systems had been carried out. In 2012, Prosperity Place has been applied for a change of use from existing industrial / office use to commercial use under the existing revitalization policy of industrial buildings by the Government. Following the completion of the conversion, Prosperity Place will become a premium commercial landmark in Kowloon East district.

Trendy Centre

Situated on Castle Peak Road in Lai Chi Kok, Trendy Centre is located in the heart of Kowloon's garment and fashion wholesaling district. The Lai Chi Kok area has recently witnessed the completion of a number of new buildings and renovation projects. In response to this new competition, the lower portion of the façade as well as the entrance lobby of the building had been renovated in 2011 to uplift its modern commercial image in order to maintain the competitiveness within the district.

Prosperity Center

Prosperity Center is strategically located in Kowloon East, which has evolved into a modern commercial hub in recent years. The building has capitalised on this trend and attracted new quality tenants. The ground floor lobby and the typical floor lift lobbies of the building had been renovated in 2011 to bring an overall fresh and modern design to increase the competitiveness within the district.

Prosperity Millennia Plaza

Prosperity Millennia Plaza stands with panoramic sea view of Victoria Harbour and strategically located in the Island East office district. The entire Island East district is being transformed into an upscale business district, featuring a blend of premium office properties and sophisticated retail outlets. In 2011, enhancement works for upgrading the common corridors and washrooms in the property has been carried out, to improve the working environment and building facility for the tenants. The works are scheduled to be completed in the third quarter of 2012.

Outlook

Since the Listing Date, Prosperity REIT has met challenges posed by various economic uncertainties, and 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 stable returns to the unitholders in 2012 through our proven expertise in professional management.

Financial Review

The revenue and net property income of each property in Prosperity REIT's portfolio for the Reporting Year 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	70,456	18,175	88,631	69,276
Prosperity Millennia Plaza	46,169	11,686	57,855	44,557
Harbourfront Landmark (portion)	15,577	2,646	18,223	13,995
Industrial/Office				
Prosperity Place	39,785	139	39,924	29,741
Trendy Centre	28,378	5,980	34,358	27,123
Prosperity Center (portion)	22,977	2,833	25,810	19,181
Industrial				
New Treasure Centre (portion)	9,175	1,651	10,826	7,639
Total	<u>232,517</u>	<u>43,110</u>	<u>275,627</u>	<u>211,512</u>

Revenue

During the Reporting Year, revenue improved to HK\$275.6 million, being HK\$5.5 million or 2.0% higher than that of 2010.

The revenue comprised HK\$232.5 million of rental and car park income, plus HK\$43.1 million of rental related income. Rental and car park income was HK\$5.6 million or 2.5% above that of 2010.

Net Property Income

The net property income for the Reporting Year was HK\$211.5 million, 0.5% lower than last year. The decrease was mainly due to the impact brought forward from the negative rental reversion in 2010, together with higher cost as a result of the larger expiry profile in 2011 and the statutory minimum wage enforced. Accordingly, the cost-to-revenue ratio for the Reporting Year increased to 23.3%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year amounted to HK\$163.5 million, representing a total DPU of HK\$0.1202. 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\$10.1 million (equivalent to HK\$0.0075 per unit) due to the interest rate swap, all of which have been recorded in the consolidated statement of comprehensive income.

The distributable income for the half year from 1 July 2011 to 31 December 2011 is HK\$82.9 million, equivalent to a DPU of HK\$0.0607. The interim DPU from 1 January 2011 to 30 June 2011 was HK\$0.0595, and the total DPU for the Reporting Year is HK\$0.1202, which represents a distribution yield of 8.0%, based on Prosperity REIT's closing unit price of HK\$1.50 on 30 December 2011. The DPU increased 9.2% YoY which was mainly due to the decrease in finance costs in the Reporting Year, as a result of two financial arrangements, including the refinancing and plain vanilla swap, entered into during 2010.

The distribution for the half year from 1 July 2011 to 31 December 2011 will be paid on Thursday, 19 April 2012.

Liquidity and Financing

As at 31 December 2011, 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\$35 million was drawn as at 31 December 2011. 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 rate 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 25.6% as at 31 December 2011, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 36.9% as at 31 December 2011.

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\$1,044.1 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 Dec 2011	31 Dec 2010
	HK\$' 000	HK\$' 000
Fair value at the beginning of the year	5,934,000	5,256,000
Additional expenditure	12,946	7,793
Increase in fair value of investment properties	1,044,054	670,207
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Fair value at the end of the year	6,991,000	5,934,000
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Charges on Assets

As at 31 December 2011, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,933 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

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

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 17,806,000 units of Prosperity REIT 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 Tuesday, 10 April 2012 to Friday, 13 April 2012, 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, 5 April 2012. The payment date of the final distribution will be on Thursday, 19 April 2012.

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 2011.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Monday, 30 April 2012.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 11 May 2012. 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 2011

	<i>Notes</i>	<i>2011</i>	<i>2010</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	275,627	270,094
Property management fees		(6,351)	(6,263)
Property operating expenses		(57,764)	(51,300)
Total property operating expenses		(64,115)	(57,563)
Net property income		211,512	212,531
Interest income		2,782	30
Manager's fee		(32,569)	(28,631)
Trust and other expenses		(6,728)	(6,801)
Increase in fair value of investment properties		1,044,054	670,207
Finance costs	5	(46,202)	(65,497)
Profit before taxation and transactions with unitholders		1,172,849	781,839
Taxation	6	(193,757)	(129,282)
Profit for the year, before transactions with unitholders		979,092	652,557
Distribution to unitholders		(163,518)	(147,831)
Profit for the year, after transactions with unitholders		815,574	504,726
Other comprehensive income			
Change in fair value of cashflow hedge		11,133	3,041
Reclassification adjustment in respect of cash flow hedge		-	9,284
Total other comprehensive income		11,133	12,325
Total comprehensive income for the year, after transactions with unitholders		826,707	517,051
Income available for distribution to unitholders		163,518	147,831
Basic earnings per unit (HK\$)	7	0.72	0.49

DISTRIBUTION STATEMENT

For the year ended 31 December 2011

	2011	2010
	HK\$'000	HK\$'000
Profit for the year, before transactions with unitholders	979,092	652,557
Adjustments:		
Manager's fee	32,514	28,582
Increase in fair value of investment properties	(1,044,054)	(670,207)
Finance costs	10,137	13,844
Deferred tax	185,829	123,055
	<hr/>	<hr/>
Income available for distribution (note (i))	163,518	147,831
	<hr/> <hr/>	<hr/> <hr/>
Distributions to unitholders:		
HK\$0.0595 (2010: HK\$0.0555) per unit for the six months ended 30 June (note (ii))	80,593	74,297
HK\$0.0607 (2010: HK\$0.0546) per unit for the six months ended 31 December (note (iii))	82,925	73,534
	<hr/>	<hr/>
	163,518	147,831
	<hr/> <hr/>	<hr/> <hr/>
Total distribution per unit (HK\$)	0.1202	0.1101
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) These adjustments for the current year include:
- (a) manager's fee paid in units of HK\$32,514,000 (2010: HK\$28,582,000) out of the total Manager's fee of HK\$32,569,000 (2010: HK\$28,631,000) (the difference of HK\$55,000 (2010: HK\$49,000) are paid in cash);
 - (b) increase in fair value of investment properties of HK\$1,044,054,000 (2010: HK\$670,207,000);
 - (c) adjustment in respect of the difference between the accounting finance cost of HK\$46,202,000 (2010: HK\$65,497,000) less cash finance cost of HK\$36,065,000 (2010: HK\$51,653,000); and
 - (d) deferred tax provision of HK\$185,829,000 (2010: HK\$123,055,000).

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\$0.0595 for the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$0.0555) is calculated based on Prosperity REIT's income available for distribution of HK\$80,593,000 (six months ended 30 June 2010: HK\$74,297,000) over 1,355,008,050 units (30 June 2010: 1,338,387,711 units), representing units in issue as at 30 June 2011 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 2011. The distribution was paid to unitholders on 9 September 2011.

- (iii) The distribution per unit of HK\$0.0607 for the six months ended 31 December 2011 (for the six months ended 31 December 2010: HK\$0.0546) is calculated based on Prosperity REIT's income available for distribution of HK\$82,925,000 (for the six months ended 31 December 2010: HK\$73,534,000) over 1,365,888,233 units (31 December 2010: 1,346,635,755 units), representing units in issue as at 31 December 2011 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 2011

	<i>Notes</i>	<i>2011</i> <i>HK\$'000</i>	<i>2010</i> <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		6,991,000	5,934,000
Current assets			
Trade and other receivables	8	8,265	8,002
Tax recoverable		44	261
Bank balances and cash		52,945	29,832
Total current assets		61,254	38,095
Total assets		7,052,254	5,972,095
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		21,178	32,311
Secured term loan	10	1,733,270	1,723,933
Deferred tax liabilities		574,169	388,340
Total non-current liabilities, excluding net assets attributable to unitholders		2,328,617	2,144,584
Current liabilities			
Trade and other payables	9	133,038	115,095
Amount due to related companies		11,431	8,113
Secured revolving loan	10	35,000	26,000
Provision for taxation		320	3,069
Manager's fee payable		8,640	7,577
Distribution payable		82,925	73,534
Total current liabilities		271,354	233,388
Total liabilities, excluding net assets attributable to unitholders		2,599,971	2,377,972
Net assets attributable to unitholders		4,452,283	3,594,123
Units in issue ('000)	11	1,360,443	1,342,637
Net asset value per unit (HK\$) attributable to unitholders	12	3.29	2.70

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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)–Int 14 (Amendments) Requirement	Prepayments of a Minimum Funding
HK (IFRIC)–Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on Prosperity REIT's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 9 HKFRS 9 and HKFRS 7 (Amendments)	Financial Instruments ³ Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁵
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (Revised 2011)	Employee Benefits ²
HKAS 27 (Revised 2011)	Separate Financial Statements ²
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 January 2012

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

⁶ Effective for annual periods beginning on or after 1 January 2014

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 are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

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.

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 entities 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 and up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

(3) Revenue:

	2011	2010
	HK\$'000	HK\$'000
Gross rental from investment properties:		
Rental income	214,291	209,683
Car park income	18,226	17,206
	<u>232,517</u>	<u>226,889</u>
Rental related income	43,110	43,205
	<u>275,627</u>	<u>270,094</u>

(4) Segment information

Prosperity REIT is currently investing in seven office, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, a portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which Prosperity REIT reports its segment information and is presented below:

For the year ended 31 December 2011

	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	88,631	57,855	18,223	39,924	34,358	25,810	10,826	275,627
Segment profit	69,276	44,557	13,995	29,741	27,123	19,181	7,639	211,512
Interest income								2,782
Manager's fee								(32,569)
Trust and other expenses								(6,728)
Increase in fair value of investment properties								1,044,054
Finance costs								<u>(46,202)</u>
Profit before taxation and transactions with unitholders								<u>1,172,849</u>

For the year ended 31 December 2010

	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	87,693	57,220	18,798	37,334	33,104	25,370	10,575	270,094
Segment profit	70,336	45,598	16,508	28,001	25,153	19,313	7,622	212,531
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>

Segment profit or net property income is the measure reported to the REIT Manager.

(5) Finance costs:

	2011 HK\$'000	2010 HK\$'000
Interest expense on		
Secured term loan	29,441	17,479
Release of hedging reserve	-	9,284
Equalisation of interest expense through cashflow hedges	14,898	38,717
	<u>44,339</u>	<u>65,480</u>
Secured revolving loan	1,863	17
	<u>46,202</u>	<u>65,497</u>

(6) Taxation:

	2011	2010
	HK\$'000	HK\$'000
Current tax	7,928	6,227
Deferred tax	185,829	123,055
	<u>193,757</u>	<u>129,282</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. 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\$979,092,000 (2010: HK\$652,557,000) by the weighted average of 1,352,423,464 (2010: 1,334,817,688) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

(8) Trade and other receivables:

	2011	2010
	HK\$'000	HK\$'000
Trade receivables	96	376
Deposit and prepayments	8,169	7,626
	<u>8,265</u>	<u>8,002</u>

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

	2011	2010
	HK\$'000	HK\$'000
Current – 1 month	96	223
2 – 3 months	-	153
	<u>96</u>	<u>376</u>

(9) Trade and other payables:

	2011	2010
	HK\$'000	HK\$'000
Trade payables	2,468	562
Tenants' deposits		
- Outside parties	93,927	76,165
- Related parties	411	411
Rental received in advance –		
Outside parties	3,062	1,430
Other payables	33,170	36,527
	<u>133,038</u>	<u>115,095</u>

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

	2011	2010
	HK\$'000	HK\$'000
Current – 1 month	2,217	249
2 – 3 months	134	186
Over 3 months	117	127
	<u>2,468</u>	<u>562</u>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$54,852,000 (2010: HK\$48,363,000).

(10) Borrowings:

	2011	2010
	HK\$'000	HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(36,730)	(46,067)
	<u>1,733,270</u>	<u>1,723,933</u>
Secured revolving loan	35,000	26,000
	<u>1,768,270</u>	<u>1,749,933</u>
Carrying amount repayable:		
Within one year	35,000	26,000
More than two years, but not exceeding five years	1,733,270	1,723,933
	<u>1,768,270</u>	<u>1,749,933</u>

(11) Units in issue

	Number of units	HK\$'000
Balance as at 31 December 2009	1,323,581,882	2,799,290
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>19,054,800</u>	<u>27,841</u>
Balance as at 31 December 2010	1,342,636,682	2,827,131
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>17,805,847</u>	<u>31,453</u>
Balance as at 31 December 2011	<u>1,360,442,529</u>	<u>2,858,584</u>

- (12) The net asset value per unit is calculated based on the net assets attributable to unitholders of Prosperity REIT excluding hedging reserve, amounting to HK\$21,178,000 (2010: HK\$32,311,000), and the total number of 1,360,442,529 units in issue as at 31 December 2011 (1,342,636,682 units in issue as at 31 December 2010).
- (13) As at 31 December 2011, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$210,100,000 (2010: HK\$195,293,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$6,780,900,000 (2010: HK\$5,738,707,000).
- (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; Ms. Wong Lai Hung as Executive Director; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam as Independent Non-executive Directors.