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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 2012

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 unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2012 (the "Reporting Period") together with comparative figures for the corresponding period in 2011 as follows:

Performance Highlights

	<u>Six months ended</u> <u>30 Jun 2012</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2011</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit (“DPU”)	HK\$0.0660	HK\$0.0595	10.9%

<u>Key financial figures</u>	<u>As at 30 Jun 2012</u> <u>(unaudited)</u>	<u>As at 31 Dec 2011</u> <u>(audited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$3.82	HK\$3.62 *	5.5%
Property valuation	HK\$7,312 million	HK\$6,991 million	4.6%
Gearing ratio **	24.2%	25.6%	(1.4%) ¹

<u>Operation data</u>	<u>Six months ended</u> <u>30 Jun 2012</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>30 Jun 2011</u> <u>(unaudited)</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$149.3 million	HK\$134.7 million	10.8%
Net property income	HK\$116.5 million	HK\$104.6 million	11.4%
Average effective unit rent	HK\$16.22 per sq. ft.	HK\$14.77 per sq. ft.	9.8%
Occupancy rate <i>(as at 30 June)</i>	99.0%	98.5%	0.5% ¹
Tenant retention rate	80.0%	70.4%	9.6% ¹
Rental reversion rate	33.1%	12.3%	20.8% ¹
Cost-to-revenue ratio	22.0%	22.4%	(0.4%) ¹

* Net asset value per unit as at 31 December 2011 has been restated due to the amendments to Hong Kong Accounting Standard 12.

** This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

¹ Absolute change

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 about the properties in the portfolio, as at 30 June 2012, 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	2,637	99.2%
Prosperity Millennia Plaza	North Point	217,955	43	1,539	100.0%
Harbourfront Landmark (portion)	Hung Hom	77,021	–	414	100.0%
Industrial/Office					
Prosperity Place	Kwun Tong	240,000	60	1,056	97.7%
Trendy Centre	Lai Chi Kok	173,764	79	759	97.4%
Prosperity Center (portion)	Kwun Tong	149,253	105	667	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	240	100.0%
Total		<u>1,215,579</u>	<u>407</u>	<u>7,312</u>	<u>99.0%</u>

The on-going sovereign debt crisis in the Eurozone and the global economic slowdown have continued to weigh on the property market in Hong Kong. The market sentiment has turned sour in central business district (“CBD”), particularly in the banking and finance sectors. However, rental in the decentralized area, particularly in the Kowloon East district, is relatively resilient due to the persistent office relocation trend for corporate cost control purpose. The decentralized property market delivers a more stable rental performance than the CBD in the first half of 2012. Prosperity REIT has been well-positioned to benefit from the office decentralization trend and has achieved a remarkable rental reversion rate of 33.1% complemented with a high occupancy rate of 99.0% during the first half of 2012.

Proactive leasing strategies and strong tenant relations have always been the key pillars of Prosperity REIT’s business strategies, serving as the important contributing factors to its outstanding business performance during the Reporting Period. During the Reporting Period, the tenant retention rate of Prosperity REIT’s portfolio recorded a strong 80.0%, while the average effective unit rent rose to HK\$16.22 per sq. ft..

Meanwhile, the REIT Manager implemented effective measures to streamline its operation and increase its operational efficiency. These strategies enabled Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 22.0% for the Reporting Period.

As at 30 June 2012, Prosperity REIT’s gearing ratio remained at a healthy level of 24.2%, providing us with a strong balance sheet to take advantage of future growth opportunities.

Investment Review

The REIT Manager will continue to seek out potential acquisition opportunities. We will assess our acquisition targets prudently in accordance with our established investment criteria, including the potential to enhance asset value, organic growth prospects and synergies with existing properties in the portfolio.

Asset Enhancement

Asset enhancement is a key growth driver for Prosperity REIT. Apart from keeping up with the keen competition, upgrading our properties will also be a way to ensure that the rental levels and capital appreciation will enjoy sustainable growth. During the first half of 2012, a number of asset enhancement works were carried out at The Metropolis Tower and Prosperity Place.

The Metropolis Tower

The Metropolis Tower, located in the commercial hub of Hung Hom, features a spectacular sea view of the Victoria Harbour. Following the successful opening of the living green roof garden in 2010, a uniquely and meticulously designed green wall was installed at the entrance lobby this year to further promote green life to our tenants.

Prosperity Place

Prosperity Place is located in the Kwun Tong district of Kowloon East, a new commercial hub that has recently experienced tremendous growth. Two asset enhancement works at the building were completed in the first half of 2012. The concrete parapet wall at the roof garden was replaced with a tempered glass wall for tenants to enjoy better views of the Victoria Harbour as well as the Kai Tak Cruise Terminal. Moreover, a vertical green wall was installed at the carpark entrance to create an eco-friendly surrounding and increase the environmental awareness of our tenants and the community.

Application was made this year for converting the land use of Prosperity Place from industrial/office to commercial under the government's industrial buildings revitalization scheme. The application is in progress towards the final stage.

Outlook

Looking towards the remainder of 2012, external economic uncertainties and challenges from the global economy, especially from the Euro crisis may continue to create headwinds for the Hong Kong economy. Nevertheless, since Prosperity REIT's listing in 2005, we have demonstrated persistence to navigate through volatile economic conditions and deliver stable distributions to unitholders. The solid business foundations of Prosperity REIT are evidenced by the strong interim results in this first half year.

The REIT Manager shall strive to advance our competitive position by leveraging on the future potentials arising from the policies of the HKSAR Government, focusing on Kowloon East redevelopment and by maintaining our properties at premier standard with the professional support of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT.

Barring any unforeseen circumstances, demand in commercial property in decentralized area will grow steadily. We shall continue to benefit from the office decentralization trend and deliver stable and sustainable returns to our unitholders.

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	39,454	9,292	48,746	38,572
Prosperity Millennia Plaza	25,134	6,090	31,224	24,824
Harbourfront Landmark (portion)	8,395	2,550	10,945	9,117
Industrial/Office				
Prosperity Place	21,104	68	21,172	15,453
Trendy Centre	14,965	2,917	17,882	14,078
Prosperity Center (portion)	12,225	1,399	13,624	10,246
Industrial				
New Treasure Centre (portion)	4,879	845	5,724	4,197
Total	<u>126,156</u>	<u>23,161</u>	<u>149,317</u>	<u>116,487</u>

Revenue

During the Reporting Period, revenue improved to HK\$149.3 million, being HK\$14.6 million or 10.8% higher than the last corresponding half year.

The revenue comprised HK\$126.2 million of rental and car park income, plus HK\$23.1 million of rental related income. Rental and car park income was HK\$12.4 million or 10.8% higher than the last corresponding half year.

Net Property Income

For the Reporting Period, the net property income was HK\$116.5 million, exceeding the last corresponding half year by HK\$11.9 million or 11.4%. The growth was mainly attributable to the strong rental reversion rate of 33.1% which is a main contributing factor to the rental growth, and the high tenant retention rate which resulted in saving in the operating expense. The cost-to-revenue ratio was 22.0%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$90.8 million, representing a DPU of HK\$0.0660. This represents an

annualized distribution yield of 7.5%² per unit. The distributable income for the Reporting Period is 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) including a finance cost of HK\$5 million (equivalent to HK\$0.0037 per unit) due to the interest rate swap, which have been recorded in the condensed consolidated statement of comprehensive income for the Reporting Period.

Distribution

It is the policy of the REIT Manager to distribute an amount equal to 100% of Prosperity REIT's annual distributable income to unitholders of Prosperity REIT. 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.

Liquidity and Financing

As at 30 June 2012, Prosperity REIT had facilities in an 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 a revolving credit facility of HK\$10 million was drawn as at 30 June 2012. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving credit 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 the 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 of 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 24.2% as at 30 June 2012, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 29.4%.

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

² Based on Prosperity REIT's closing unit price of HK\$1.77 as at 29 June 2012

Investment Properties and Property Valuation

For the Reporting Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$314.5 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
Fair value at the beginning of the period/year	6,991,000	5,934,000
Additional expenditure	6,453	12,946
Increase in fair value of investment properties	314,547	1,044,054
Fair value at the end of the period/year	<u>7,312,000</u>	<u>6,991,000</u>

Charges on Assets

As at 30 June 2012, certain properties of Prosperity REIT, with an aggregate carrying value of HK\$7,251 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.

PURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 10,549,000 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, 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 Friday, 7 September 2012 to Wednesday, 12 September 2012, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim 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 Thursday, 6 September 2012. The payment date of interim distribution will be on Tuesday, 18 September 2012.

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 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.

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 2012.

ISSUANCE OF INTERIM REPORT

The Interim Report 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 Friday, 31 August 2012.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		<i>Six months ended 30 June</i>	
		<i>2012</i>	<i>2011</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
			<i>(restated)</i>
Revenue	3	149,317	134,736
Property management fees		(3,393)	(3,122)
Property operating expenses		(29,437)	(27,010)
Total property operating expenses		(32,830)	(30,132)
Net property income		116,487	104,604
Interest income		44	338
Manager's fee		(17,759)	(15,615)
Trust and other expenses		(3,722)	(3,532)
Increase in fair value of investment properties		314,547	702,275
Finance costs	5	(21,824)	(22,292)
Profit before taxation and transactions with unitholders		387,773	765,778
Taxation	6	(11,617)	(10,074)
Profit for the period, before transactions with unitholders		376,156	755,704
Distribution to unitholders		(90,844)	(80,593)
Profit for the period, after transactions with unitholders		285,312	675,111
Other comprehensive income			
Change in fair value of cash flow hedge		(12,292)	32,732
Total comprehensive income for the period, after transactions with unitholders		273,020	707,843
Income available for distribution to unitholders		90,844	80,593
Basic earnings per unit (HK\$)	7	0.27	0.56

DISTRIBUTION STATEMENT

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Profit for the period, before transactions with unitholders	376,156	755,704
Adjustments (note (i)):		
Manager's fee	17,728	15,589
Increase in fair value of investment properties	(314,547)	(702,275)
Finance costs	5,049	5,031
Deferred tax	6,458	6,544
Income available for distribution	90,844	80,593
Distribution to unitholders:		
For the six months ended 30 June	90,844	80,593
Distribution per unit (HK\$) (note (ii))	0.0660	0.0595

Notes:

- (i) 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.

These Adjustments for the half year comprise:

- (a) Manager's fee paid and payable in units of HK\$17,728,000 (2011: HK\$15,589,000) out of the total Manager's fee of HK\$17,759,000 (2011: HK\$15,615,000) (the difference of HK\$31,000 (2011: HK\$26,000) is paid in cash);
- (b) increase in fair value of investment properties of HK\$314,547,000 (2011: HK\$702,275,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$21,824,000 (2011: HK\$22,292,000) less cash finance cost of HK\$16,775,000 (2011: HK\$17,261,000); and
- (d) deferred tax provision of HK\$6,458,000 (2011(restated) : HK\$6,544,000).
- (ii) The DPU of HK\$0.0660 (2011: HK\$0.0595) is calculated based on Prosperity REIT's income available for distribution of HK\$90,844,000 (2011: HK\$80,593,000) over 1,375,762,318 units (2011: 1,355,008,050 units), representing units in issue as at 30 June 2012 plus the number of units to be issued after the distribution period to the REIT Manager as Manager's fee for its service in the second quarter of 2012.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(restated)</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		7,312,000	6,991,000
Current assets			
Trade and other receivables	8	8,851	8,265
Tax recoverable		-	44
Bank balances and cash		37,834	52,945
Total current assets		46,685	61,254
Total assets		7,358,685	7,052,254
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		33,470	21,178
Secured term loan	10	1,738,319	1,733,270
Deferred tax liabilities		126,235	119,777
Total non-current liabilities, excluding net assets attributable to unitholders		1,898,024	1,874,225
Current liabilities			
Trade and other payables	9	136,557	133,038
Amounts due to related companies		11,763	11,431
Secured revolving loan	10	10,000	35,000
Provision for taxation		5,434	320
Manager's fee payable		9,010	8,640
Distribution payable		90,844	82,925
Total current liabilities		263,608	271,354
Total liabilities, excluding net assets attributable to unitholders		2,161,632	2,145,579
Net assets attributable to unitholders		5,197,053	4,906,675
Units in issue ('000)	11	1,370,992	1,360,443
Net asset value per unit (HK\$)	12	3.82	3.62

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 for the six months ended 30 June 2012 are the same as those followed in the preparation of Prosperity REIT's annual financial statements for the year ended 31 December 2011, except as described below.

In the current period, Prosperity REIT has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

Except as described below, the application of these amendments had no material impact on Prosperity REIT's financial performance and positions for the current and prior period.

Amendments to HKAS 12 "Income Taxes"

Prosperity REIT has applied amendments to HKAS 12 titled "Deferred Tax: Recovery of Underlying Assets". Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred tax, unless the presumption is rebutted in certain circumstances.

As a result, Prosperity REIT's investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax in respect of such properties. The application of the amendments has resulted in deferred tax liabilities being decreased by HK\$281,993,000 and HK\$454,392,000 as at 1 January 2011 and 31 December 2011, respectively, with the corresponding adjustment being recognised in retained profits under condensed consolidated statement of changes in net assets attributable to unitholders. In addition, the application has resulted in Prosperity REIT's income taxes for the six months ended 30 June 2011 being reduced by HK\$115,877,000 and profit for the period, before transactions with unitholders for the six months ended 30 June 2011 being increased by the same amount.

In the current period, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties. The application of the amendments has resulted in Prosperity REIT's taxation for the six months ended 30 June 2012 being reduced by HK\$51,900,000 and profit for the period, before transactions with unitholders for the six months ended 30 June 2012 being increased by the same amount.

Summary of the effect of the above change in accounting policy

The effect of the change in accounting policy described above on the results for the current and prior period by line items presented in the condensed consolidated statement of comprehensive income is as follows:

	<i>Six months ended 30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>HK\$000</i>	<i>HK\$000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Decrease in taxation and corresponding increase in profit for the period, before transactions with unitholders	51,900	115,877

	<i>Six months ended 30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>HK\$000</i>	<i>HK\$000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
<i>Impact on basic earnings per unit</i>		
Basic earnings per unit before adjustment	0.23	0.47
Adjustment in relation to application of amendments of HKAS 12	0.04	0.09
Reported basic earnings per unit	0.27	0.56

The effect of the change in accounting policy described above on the financial positions of Prosperity REIT as at 31 January 2011 and 31 December 2011 are as follows:

	<i>As at</i> <i>31.12.2011</i> <i>(originally stated)</i> <i>HK\$000</i>	<i>Adjustment</i> <i>HK\$000</i>	<i>As at</i> <i>31.12.2011</i> <i>(restated)</i> <i>HK\$000</i>
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	<u>574,169</u>	<u>(454,392)</u>	<u>119,777</u>

	<i>As at</i> <i>1.1.2011</i> <i>(originally stated)</i> <i>HK\$000</i>	<i>Adjustment</i> <i>HK\$000</i>	<i>As at</i> <i>1.1.2011</i> <i>(restated)</i> <i>HK\$000</i>
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	<u>388,340</u>	<u>(281,993)</u>	<u>106,347</u>

Prosperity REIT has not early adopted the new or revised HKFRSs that have been issued but are not yet effective. The following amendments to HKFRSs have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ¹
Amendments to HKFRS 10, and HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹

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

The REIT Manager anticipates that the application of the above amendments to HKFRSs, based on the current business operation, will have no material impact on the condensed consolidated financial statements of Prosperity REIT.

(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 and 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 REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

(3) Revenue:

	<i>Six months ended 30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	116,542	104,951
Car park income	9,613	8,862
	<hr/>	<hr/>
	126,155	113,813
Rental related income	23,162	20,923
	<hr/>	<hr/>
	149,317	134,736
	<hr/> <hr/>	<hr/> <hr/>

(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. Segment information are prepared based on these properties to the REIT Manager, being the chief operating decision maker, for the purpose of resource allocation and performance assessment:

Six months ended 30 June 2012 (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	48,746	31,224	10,945	21,172	17,882	13,624	5,724	149,317
Segment profit	38,572	24,824	9,117	15,453	14,078	10,246	4,197	116,487
Interest income								44
Manager's fee								(17,759)
Trust and other expenses								(3,722)
Increase in fair value of investment properties								314,547
Finance costs								(21,824)
Profit before taxation and transactions with unitholders								<u>387,773</u>

Six months ended 30 June 2011 (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	43,181	27,520	9,396	19,641	16,767	12,907	5,324	134,736
Segment profit	33,857	20,843	8,258	14,608	13,166	10,008	3,864	104,604
Interest income								338
Manager's fee								(15,615)
Trust and other expenses								(3,532)
Increase in fair value of investment properties								702,275
Finance costs								(22,292)
Profit before taxation and transactions with unitholders								<u>765,778</u>

(5) Finance costs:

	<i>Six months ended 30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest expense on:		
- Secured term loan	15,008	14,677
- Equalisation of interest expense through cash flow hedge	6,736	7,346
	<hr/>	<hr/>
	21,744	22,023
- Secured revolving loan	80	269
	<hr/>	<hr/>
	21,824	22,292
	<hr/> <hr/>	<hr/> <hr/>

(6) Taxation:

	<i>Six months ended 30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
		<i>(restated)</i>
Current tax	5,159	3,530
Deferred tax	6,458	6,544
	<hr/>	<hr/>
	11,617	10,074
	<hr/> <hr/>	<hr/> <hr/>

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 relating to accelerated tax depreciation and tax losses 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\$376,156,000 (2011 (restated): HK\$755,704,000) by the weighted average of 1,370,881,375 (2011: 1,350,666,123) units in issue during the period, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution period.

(8) Trade and other receivables:

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	358	96
Deposits, prepayments and other receivables	8,493	8,169
	<u>8,851</u>	<u>8,265</u>

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

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
1 – 30 days	116	96
31 – 90 days	126	-
Over 90 days	116	-
	<u>358</u>	<u>96</u>

(9) Trade and other payables:

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	2,748	2,468
Tenants' deposits		
- Outside parties	95,964	93,927
- Related parties	415	411
Rental received in advance		
- Outside parties	2,534	3,062
Other payables	34,896	33,170
	<u>136,557</u>	<u>133,038</u>

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

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
1 – 30 days	1,311	2,217
31 – 90 days	162	134
Over 90 days	1,275	117
	<u>2,748</u>	<u>2,468</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\$61,159,000 (2011: HK\$54,852,000).

(10) Borrowings:

	<i>30 Jun 2012</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2011</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loan	1,770,000	1,770,000
Origination fees	(31,681)	(36,730)
	<u>1,738,319</u>	<u>1,733,270</u>
Secured revolving loan	10,000	35,000
	<u>1,748,319</u>	<u>1,768,270</u>
Carrying amount repayable:		
Within one year	10,000	35,000
More than two years, but not exceeding five years	1,738,319	1,733,270
	<u>1,748,319</u>	<u>1,768,270</u>

(11) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2011	1,342,636,682	2,827,131
Payment of Manager's base fee and variable fee through issuance of new units during the year	17,805,847	31,453
	<u>1,360,442,529</u>	<u>2,858,584</u>
Balance as at 31 December 2011	1,360,442,529	2,858,584
Payment of Manager's base fee and variable fee through issuance of new units during the period	10,549,199	17,358
	<u>1,370,991,728</u>	<u>2,875,942</u>
Balance as at 30 June 2012	<u>1,370,991,728</u>	<u>2,875,942</u>

- (12) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$33,470,000 (31 December 2011: HK\$21,178,000), and the total number of 1,370,991,728 units in issue as at 30 June 2012 (31 December 2011: 1,360,442,529).
- (13) As at 30 June 2012, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$216,923,000 (31 December 2011: HK\$210,100,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$7,095,077,000 (31 December 2011: HK\$6,780,900,000).
- (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.

Hong Kong, 16 August 2012

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.