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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 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 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 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 2011 (the "Reporting Period") together with comparative figures for the corresponding period in 2010 as follows:

Performance Highlights

Six months ended 30 June (unaudited)

	<u>2011</u>	<u>2010</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.0595	HK\$0.0555	7.2%

<u>Key financial figures</u>	<u>As at 30 Jun 2011 (unaudited)</u>	<u>As at 31 Dec 2010 (audited)</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$3.11	HK\$2.70	15.2%
Property valuation	HK\$6,643 million	HK\$5,934 million	11.9%
Gearing ratio **	29.8%	30.1%	(0.3%) ¹

Six months ended 30 June (unaudited)

<u>Operation data</u>	<u>2011</u>	<u>2010</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$134.74 million	HK\$133.65 million	0.8%
Net property income	HK\$104.60 million	HK\$105.80 million	(1.1%)
Average effective unit rent	HK\$14.77 per sq. ft.	HK\$14.72 per sq. ft.	0.3%
Occupancy rate (as at 30 June)	98.5%	98.3%	0.2% ¹
Tenant retention rate	70.4%	61.3%	9.1% ¹
Cost-to-revenue ratio	22.4%	20.8%	1.6% ¹

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

¹ Absolute change

DISTRIBUTION

It is the policy of the REIT Manager to distribute to unitholders an amount equal to 100% of Prosperity REIT's annual distributable income. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

BUSINESS OVERVIEW

Building on the solid financial foundations established over the years, Prosperity REIT achieved strong results during the first half of 2011. In particular, our total finance costs were reduced by 35.9% year-on-year (“YoY”) attributed to the prudent financial management policies adopted by the REIT Manager. The saving in financial costs, together with our stable rental revenue, resulted in a YoY increase of 7.2% in DPU for the Reporting Period.

In light of this good performance, I am pleased to announce that our unitholders will receive an interim DPU of HK\$0.0595 for the Reporting Period. This represents an annualized distribution yield of 6.5%².

MARKET REVIEW

The global economy continued to record steady growth in the first half of 2011, despite the fact that there are a number of uncertainties: most notably the consequences of Japan's earthquake, the concern on the Euro Zone debt problems and the inflation in China. Meanwhile, the weak economic data in the United States fuelled worries that the recovery of the world's largest economy is slowing down.

Against this backdrop, the outlook for China's economy remains positive, with gross domestic product (“GDP”) increasing 9.5%³ YoY during the second quarter. The nation's GDP is expected to continue its steady growth in the second half of 2011 and throughout 2012.

Hong Kong's economy has been leveraging on China's strong growth, as well as its rapidly expanding and increasingly sophisticated consumer market. The city's exports are set to increase by 12%⁴ in 2011, of which sales to China are anticipated to account for half. The emphasis on supporting Hong Kong's prosperity and stability in China's 12th Five-Year Plan, which was approved by the National People's Congress in March 2011, is also expected to drive the city's ongoing economic growth.

Positive business prospects are propelling demand for office space in Hong Kong. Given the limited supply of office space in the near future, the demand for quality office space will drive rental rates up further. The trend of office relocation to decentralized business districts is expected to continue, with Prosperity REIT being well-positioned to benefit from this trend in the coming years.

² Based on Prosperity REIT's closing unit price of HK\$1.83 as at 30 June 2011

³ Source: National Bureau of Statistics of China

⁴ Source: Hong Kong Trade Statistics, HKSAR Census and Statistics Department

OPERATIONS REVIEW

Prosperity REIT's portfolio recorded a strong rental reversion rate of 12.3% and a revenue of HK\$134.7 million during the Reporting Period. The occupancy rate of our portfolio reached an optimal level of 98.5% as at 30 June 2011. The average effective unit rent was HK\$14.77 per sq. ft. The cost-to-revenue ratio and gearing ratio remained sound at 22.4% and 29.8%, respectively.

These encouraging figures are attributable to the REIT Manager's professional management expertise and effective tenant recruitment strategies.

PROSPECTS

Looking forward, we are confident that Prosperity REIT will continue to benefit from the stable growth of the Hong Kong's economy. The REIT Manager expects the increase in demand for office space and the growing trend for decentralization of office space to continue. These factors are advantageous to the continuous good performance of Prosperity REIT.

ACKNOWLEDGEMENT

I would like to express my appreciation for the valuable contributions made to the REIT Manager and Prosperity REIT by the late Mr Robert Douglas Pope, an Independent Non-executive Director of the REIT Manager, who passed away in March.

I would also like to commend the business acumen of Mr Stephen Henry Chu, who resigned as Prosperity REIT's Chief Executive Officer and Executive Director on 8 April 2011 and has taken up another senior position within the ARA group, after guiding our business and helping us weather the effects of the financial crisis since 1 February 2009.

Furthermore, I would like to extend a warm welcome to Mr Wong Kwai Lam, who joined the Board as an Independent Non-executive Director with effect from 6 July 2011, and to Ms Mavis Wong Lai Hung, who was appointed as the Executive Director and Acting Chief Executive Officer of the REIT Manager with effect from 8 April 2011.

Finally, I would like to express my gratitude to my colleagues on the Board, our management team, property managers, service providers and business partners for their dedication to the successful performance of Prosperity REIT and to you, our unitholders, for your trust and support.

Chiu Kwok Hung, Justin
Chairman

ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT
Hong Kong, 12 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

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

Information on the properties in the portfolio, as at 30 June 2011, is as follows:

	Location	Gross rentable area <i>Sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ Million</i>
Grade A Office				
The Metropolis Tower	Hung Hom	271,418	98	2,445
Prosperity Millennia Plaza	North Point	217,955	43	1,426
Harbourfront Landmark (portion)	Hung Hom	77,021	–	375
Industrial/Office				
Prosperity Place	Kwun Tong	240,000	60	886
Trendy Centre	Lai Chi Kok	173,764	79	711
Prosperity Center (portion)	Kwun Tong	149,253	105	577
Industrial				
New Treasure Centre (portion)	San Po Kong	86,168	22	223
Total		1,215,579	407	6,643

The Hong Kong property market was robust throughout the Reporting Period. Demand for office space was at its strongest level since the 2008 financial crisis. Additionally, the shortage of office space in core business districts has resulted in escalating rents and led to an intensified trend of office relocation to decentralized areas. Prosperity REIT has been well-positioned to capitalise on this trend and has achieved an excellent rental reversion rate of 12.3% during the first half of 2011.

Proactive leasing strategies and strong tenant relations have always been key pillars of Prosperity REIT's business strategies, serving as important contributing factors to its good business performance during the period under review. During the Reporting Period, the tenant retention rate of Prosperity REIT's portfolio recorded a strong 70.4%, while the average effective unit rent rose to HK\$14.77 per sq. ft.. The occupancy rate was maintained at a satisfactory 98.5% as at 30 June 2011.

Meanwhile, the REIT Manager implemented effective measures to streamline and increase its operational efficiency. These strategies enabled Prosperity REIT to keep the cost-to-revenue ratio at a relatively low level of 22.4% for the Reporting Period.

As at 30 June 2011, Prosperity REIT's gearing ratio was a healthy 29.8%, 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 prudently assess acquisition targets in accordance with our strict 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 an integral part of the REIT Manager's ongoing strategy for upgrading the business environment of our tenants. Such asset enhancement initiatives help to ensure continual growth of rental income, maintain high occupancy and tenant retention levels, as well as enhance property value. Various asset enhancement works were completed during the Reporting Period, and going forward, more improvements will be implemented at other properties in the portfolio.

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 REIT Manager has started renovating the lower portion of Trendy Centre's façade and main entrance lobby into a modern commercial Grade A building style. The enhancements will help Trendy Centre to retain its preeminent status in the neighbourhood and are slated for completion in the third quarter of 2011.

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. Prosperity Place's passenger lift control system will also be replaced during the second half of 2011. This enhancement will modernise the lift system to align with the highest commercial building standards and provide tenants and visitors with efficient and comfortable lift services.

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 many new quality tenants. To give it a fresh and modern look in line with other enhancement projects in the neighbourhood, the Prosperity Center's ground floor main lobby and typical floor lobbies have been renovated during the first half of 2011.

Outlook

Prosperity REIT has met all the challenges posed by various economic uncertainties in the past five years, and has continued to deliver consistent and sustainable results since its listing on 16 December 2005.

Today, Prosperity REIT is in an advantageous position to leverage on the decentralization trend in the Hong Kong office sector, which is anticipated to gather further momentum in the second half of 2011.

Given the REIT Manager's extensive experience and management expertise, as well as the diligence and professionalism of its property manager, Goodwell-Prosperity Property Services Limited, we are confident that Prosperity REIT will continue to deliver stable returns to 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	34,297	8,884	43,181	33,857
Prosperity Millennia Plaza	21,909	5,611	27,520	20,843
Harbourfront Landmark (portion)	8,316	1,080	9,396	8,258
Industrial/Office				
Prosperity Place	19,577	64	19,641	14,608
Trendy Centre	13,742	3,025	16,767	13,166
Prosperity Center (portion)	11,468	1,439	12,907	10,008
Industrial				
New Treasure Centre (portion)	4,504	820	5,324	3,864
Total	113,813	20,923	134,736	104,604

Revenue

During the Reporting Period, revenue improved to HK\$134.7 million, being HK\$1.1 million or 0.8% higher than the last corresponding half year.

The revenue comprised HK\$113.8 million rental and car park income, plus HK\$20.9 million rental related income. Rental and car park income was HK\$1.2 million or 1.1% higher than the last corresponding half year.

Net Property Income

For the Reporting Period, the net property income was HK\$104.6 million, which falls behind the last corresponding half year by HK\$1.2 million or 1.1%. This was mainly due to the adverse impact brought forward from the negative rental reversion in 2010. The impact is expected to be mitigated as a result of the strong comeback of rental reversion in the first half of 2011. The cost-to-revenue ratio was 22.4%.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$80.6 million, representing DPU of HK\$0.0595. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, and adjusted for certain non-cash adjustments (as defined in the Trust Deed)

including finance cost of HK\$5.0 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.

Liquidity and Financing

As at 30 June 2011, 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 revolving credit facility of HK\$310 million was drawn as at 30 June 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 29.8% as at 30 June 2011, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 39.7%.

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 Period, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$702.3 million, based on a professional valuation performed by an independent valuer, Savills Valuation and Professional Services Limited. The movements of fair values are tabulated below:

	<i>1 Jan 2011 to 30 Jun 2011 HK\$'000 (unaudited)</i>	<i>1 Jan 2010 to 31 Dec 2010 HK\$'000 (audited)</i>
Fair value at beginning of the period/ year	5,934,000	5,256,000
Additional expenditure	6,725	7,793
Change in fair value of investment properties	702,275	670,207
Fair value at the end of period/year	<u>6,643,000</u>	<u>5,934,000</u>

Charges on Assets

As at 30 June 2011, the seven properties of Prosperity REIT, with an aggregate carrying value of HK\$6,589.9 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 itself.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 6,074,000 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 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 Wednesday, 31 August 2011 to Monday, 5 September 2011, 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 Tuesday, 30 August 2011. The payment date of interim distribution will be on Friday, 9 September 2011.

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 2011.

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 Wednesday, 31 August 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		<i>Six months ended 30 June</i>	
		<i>2011</i>	<i>2010</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	134,736	133,651
Property management fees		(3,122)	(3,109)
Property operating expenses		(27,010)	(24,740)
Total property operating expenses		(30,132)	(27,849)
Net property income		104,604	105,802
Interest income		338	10
Manager's fee		(15,615)	(13,872)
Trust and other expenses		(3,532)	(3,129)
Change in fair value of investment properties		702,275	266,811
Finance costs	5	(22,292)	(34,758)
Profit before taxation and transactions with unitholders		765,778	320,864
Taxation	6	(125,951)	(52,758)
Profit for the period, before transactions with unitholders		639,827	268,106
Distribution to unitholders		(80,593)	(74,297)
Profit for the period, after transactions with unitholders		559,234	193,809
Other comprehensive income			
Change in fair value of cash flow hedge		32,732	17,774
Reclassification adjustment in respect of cash flow hedge		-	6,663
Total other comprehensive income		32,732	24,437
Total comprehensive income for the period, after transactions with unitholders		591,966	218,246
Income available for distribution to unitholders		80,593	74,297
Basic earnings per unit and diluted earnings per unit (HK\$)	7	0.47	0.20

DISTRIBUTION STATEMENT

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period, before transactions with unitholders	639,827	268,106
Adjustments (note (i)):		
Manager's fee	15,589	13,848
Change in fair value of investment properties	(702,275)	(266,811)
Finance costs	5,031	8,760
Deferred tax	122,421	50,394
Income available for distribution	80,593	74,297
Distribution to unitholders:		
For the six months ended 30 June	80,593	74,297
Distribution per unit (HK\$) (note (ii))	0.0595	0.0555

Notes:

(i) These adjustments for the half year include:

- (a) Manager's fee paid and payable in units of HK\$15,589,000 (2010: HK\$13,848,000) out of the total Manager's fee of HK\$15,615,000 (2010: HK\$13,872,000) (the difference of HK\$26,000 (2010: HK\$24,000) is paid in cash);
- (b) change in fair value of investment properties of HK\$702,275,000 (2010: HK\$266,811,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$22,292,000 (2010: HK\$34,758,000) less cash finance cost of HK\$17,261,000 (2010: HK\$25,998,000); and
- (d) deferred tax provision of HK\$122,421,000 (2010: HK\$50,394,000).

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 policy stated 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, and adjusted for certain Adjustments (as defined in the Trust Deed) which have been recorded in the condensed consolidated statement of comprehensive income for the relevant financial period.

(ii) The DPU of HK\$0.0595 (2010: HK\$0.0555) is calculated based on Prosperity REIT's income available for distribution of HK\$80,593,000 (2010: HK\$74,297,000) over 1,355,008,050 units (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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		30 Jun 2011 HK\$'000 (unaudited)	31 Dec 2010 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		6,643,000	5,934,000
Derivative financial instruments		421	-
		6,643,421	5,934,000
Current assets			
Trade and other receivables	8	9,580	8,002
Tax recoverable		48	261
Bank balances and cash		319,644	29,832
Total current assets		329,272	38,095
Total assets		6,972,693	5,972,095
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		-	32,311
Secured term loan	10	1,728,165	1,723,933
Deferred tax liabilities		510,761	388,340
Total non-current liabilities, excluding net asset attributable to unitholders		2,238,926	2,144,584
Current liabilities			
Trade and other payables	9	120,348	115,095
Amounts due to related companies		8,098	8,113
Secured revolving loan	10	310,000	26,000
Provision for taxation		5,472	3,069
Manager's fee payable		8,192	7,577
Distribution payable		80,593	73,534
Total current liabilities		532,703	233,388
Total liabilities, excluding net assets attributable to unitholders		2,771,629	2,377,972
Net assets attributable to unitholders		4,201,064	3,594,123
Units in issue ('000)	11	1,350,556	1,342,637
Net asset value per unit (HK\$)	12	3.11	2.70

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of Prosperity REIT's annual financial statements for the year ended 31 December 2010, except as described below.

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

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

The application of the above new or revised HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosure set out in these condensed consolidated financial statements.

Prosperity REIT has not early applied new or revised standards and amendments that have been issued but are not yet effective. The following new or revised standards and amendments have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosures of interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures 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

(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 (HKAS 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.

The REIT Manager is of the opinion that with the 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 condensed consolidated financial statements have been prepared on a going concern basis.

(3) Revenue of Prosperity REIT is as follows:

	<i>Six months ended 30 June</i>	
	<i>2011</i>	<i>2010</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Gross rental from investment properties		
Rental income	104,951	104,272
Car park income	8,862	8,297
	<hr/>	<hr/>
	113,813	112,569
Rental related income	20,923	21,082
	<hr/>	<hr/>
	134,736	133,651
	<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. These properties are the basis on which Prosperity REIT reports its segment information and is presented below:

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	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	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)
Change in fair value of investment properties								702,275
Finance costs								(22,292)
Profit before taxation and transactions with unitholders								<hr/>
								765,778
								<hr/>

Six months ended 30 June 2010 (unaudited)

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue in Hong Kong	43,292	28,411	9,399	18,421	16,127	12,688	5,313	133,651
Segment profit	34,756	22,808	8,300	13,749	12,709	9,683	3,797	105,802
Interest income								10
Manager's fee								(13,872)
Trust and other expenses								(3,129)
Change in fair value of investment properties								266,811
Finance costs								(34,758)
Profit before taxation and transactions with unitholders								320,864

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

(5) Finance costs:

	<i>Six months ended 30 June</i>	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on:		
- Secured term loan	14,677	7,587
- Release of hedging reserve	-	6,663
- Equalisation of interest expense through cash flow hedge	7,346	20,508
	22,023	34,758
- Secured revolving loan	269	-
	22,292	34,758

(6) Taxation:

	<i>Six months ended 30 June</i>	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax	3,530	2,364
Deferred tax	122,421	50,394
	125,951	52,758

The estimated tax rate used is 16.5% for the periods under review. No provision for Hong Kong Profits Tax is required for certain subsidiaries of Prosperity REIT as these subsidiaries did not have any assessable profits for the period or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences using the estimated tax rate.

- (7) The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$639,827,000 (2010: HK\$268,106,000) and by the weighted average of 1,347,293,796 (2010: 1,329,505,992) units in issue during the period.

The diluted earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$639,827,000 (2010: HK\$268,106,000) by the weighted average units in issue during the period of 1,347,293,796 (2010: 1,329,505,992) units together with the effects of potential units (units to be issued for Manager's fee) of 1,119,075 (2010: 1,215,936), amounting to 1,348,412,871 (2010: 1,330,721,928) units in aggregate.

- (8) Trade and other receivables:

	<i>30 Jun 2011</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2010</i> <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	567	376
Deposits, prepayments and other receivables	9,013	7,626
	<u>9,580</u>	<u>8,002</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 2011</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2010</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	223	223
2 – 3 months	284	153
Over 3 months	60	-
	<u>567</u>	<u>376</u>

(9) Trade and other payables:

	<i>30 Jun 2011</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2010</i> <i>HK\$'000</i> <i>(audited)</i>
Trade payables	645	562
Tenants' deposits		
- Outside parties	82,409	76,165
- Related parties	411	411
Rental received in advance		
- Outside parties	1,718	1,430
Other payables	35,165	36,527
	<u>120,348</u>	<u>115,095</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 2011</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2010</i> <i>HK\$'000</i> <i>(audited)</i>
Current – 1 month	216	249
2 – 3 months	374	186
Over 3 months	55	127
	<u>645</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\$51,105,000 (2010: HK\$48,363,000).

(10) Borrowings:

	<i>30 Jun 2011</i> <i>HK\$'000</i> <i>(unaudited)</i>	<i>31 Dec 2010</i> <i>HK\$'000</i> <i>(audited)</i>
Secured term loan	1,770,000	1,770,000
Origination fees	(41,835)	(46,067)
	<u>1,728,165</u>	<u>1,723,933</u>
Secured revolving loan	310,000	26,000
	<u>2,038,165</u>	<u>1,749,933</u>
Carrying amount repayable:		
Within one year	310,000	26,000
More than two years, but not exceeding five years	1,728,165	1,723,933
	<u>2,038,165</u>	<u>1,749,933</u>

(11) Units in issue:

	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	1,342,636,682	2,827,131
Payment of Manager's base fee and variable fee through issuance of new units during the period	7,919,664	14,975
Balance at 30 June 2011	1,350,556,346	2,842,106

(12) The net asset value per unit is calculated based on the net assets of Prosperity REIT excluding hedging reserve of HK\$4,200,643,000 (31 December 2010: HK\$3,626,434,000) and the total number of 1,350,556,346 units in issue at 30 June 2011 (31 December 2010: 1,342,636,682).

(13) As at 30 June 2011, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$203,431,000 (31 December 2010: HK\$195,293,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$6,439,990,000 (31 December 2010: HK\$5,738,707,000).

(14) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager and by Prosperity REIT's auditors, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the REIT Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; 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.