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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 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 audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2012 (the "**Reporting Year**") together with comparative figures for the corresponding year in 2011 as follows:

Performance Highlights

	<u>Year ended</u> <u>31 Dec 2012</u>	<u>Year ended</u> <u>31 Dec 2011</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.1354	HK\$0.1202	12.6%

<u>Key financial figures</u>	<u>As at 31 Dec 2012</u>	<u>As at 31 Dec 2011</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Net asset value per unit	HK\$4.24	HK\$3.62*	17.1%
Property valuation	HK\$ 7,952 million	HK\$6,991 million	13.7%
Gearing ratio **	22.4%	25.6%	(3.2%) ¹

<u>Operation data</u>	<u>Year ended</u> <u>31 Dec 2012</u>	<u>Year ended</u> <u>31 Dec 2011</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Revenue	HK\$308.4 million	HK\$275.6 million	11.9%
Net property income	HK\$239.5 million	HK\$211.5 million	13.2%
Average effective unit rent	HK\$16.94 per sq. ft.	HK\$15.05 per sq. ft.	12.6%
Occupancy rate <i>(as at 31 Dec)</i>	98.5%	98.8%	(0.3%) ¹
Tenant retention rate	71.5%	66.9%	4.6% ¹
Rental reversion rate	36.1%	14.8%	21.3% ¹
Cost-to-revenue ratio	22.3%	23.3%	(1.0%) 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

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 2012. 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 achieved a fruitful year in 2012 during which we attained strong unit price performance and delivered outstanding operating results.

The commendable achievements of Prosperity REIT, together with investors' increasing appetite for defensive investments amid volatile market conditions had been reflected in the strong performance of our unit price. In 2012, Prosperity REIT's unit price appreciated by 56.7%, versus the 22.9% increase in the Hang Seng Index.

During the Reporting Year, distributable income having benefited from the resilience of the decentralized office property market, increased by 14.3% year-on-year (“YoY”). Valuation of Prosperity REIT's property portfolio registered an uplift of 13.7% YoY to HK\$7,952 million, mainly attributable to the increase in rental revenue. As at 31 December 2012, the net asset value per unit was HK\$4.24, representing a growth of 17.1% YoY.

I am pleased to announce a total DPU of HK\$0.1354 for our unitholders, equivalent to a YoY increase of 12.6% and representing an attractive distribution yield of 5.8%².

MARKET REVIEW

The year 2012 began with multiple challenges such as the ongoing Eurozone debt crisis, fiscal uncertainties in the United States and a possible economic hard landing in Mainland China. Thanks to the decisive actions taken by central governments around the globe to launch economic stimulus, most of these issues were well on their way to being resolved by the end of the year. However, a full rebound of the global markets may still be beyond reach in the near term. In tandem with the subdued economies of its major foreign trade partners, Hong Kong recorded a modest 1.4% full year real GDP growth, the slowest since 2009³.

² Based on Prosperity REIT's closing unit price of HK\$2.35 as at 31 December 2012

³ Source: Hong Kong Census and Statistics Department

Against this backdrop, the office property market in Hong Kong was inevitably affected. However, Prosperity REIT's properties are strategically located in decentralized areas where both demand and supply remained favorable during the Reporting Year.

On the demand side, the uncertain business environment further encouraged the trend to move offices into decentralized areas. Consequently, in contrast to the weakened market sentiment in the central business district (“**CBD**”), rental in decentralized areas remained resilient. On the supply side, vacancy in the overall office market held in a low range of 3.4% to 4.4%⁴ throughout the year due to the limited introduction of new office space in the territory. Supported by healthy underlying demand and extremely tight supply, the office property market in decentralized areas remained relatively impervious to economic slowdown.

OPERATIONS REVIEW

During the Reporting Year, revenue rose 11.9% YoY to HK\$308.4 million, on the back of the resilient decentralized office property market. Through prudent cost control, the cost-to-revenue ratio improved to 22.3%. As a result, net property income recorded a leap of 13.2%, reaching HK\$239.5 million.

Portfolio occupancy rate remained steady at 98.5% as at 31 December 2012. Average effective unit rent jumped to HK\$16.94 per sq. ft., representing an increase of 12.6% YoY. Our proactive leasing strategy and strong tenant relations enabled us to further improve the tenant retention rate to 71.5% during the Reporting Year. Rental reversion rate reached an astounding 36.1%. Gearing ratio remained at a prudent level of 22.4% as at 31 December 2012.

Highlight of the year was the approval by the Hong Kong SAR government to convert the use of Prosperity Place from industrial/office to commercial under the industrial buildings revitalization scheme. This approval allows Prosperity Place to include commercial elements, thus enabling us to tap into the expanding high quality commercial tenant pool in Kowloon East.

PROSPECTS

Despite the positive economic indicators which began to emerge at the end of the year, we expect the global economy will remain fragile in 2013. However, the drivers for a resilient decentralized office property market in Hong Kong remain very much intact.

⁴ Source: Jones Lang LaSalle

We remain committed to providing stable and sustainable returns to our unitholders. In light of the uncertain macro conditions ahead, we will actively manage and enhance our assets to drive rental and valuation growth. The industrial/office focus in our portfolio allows us to benefit from wholesale conversion under the industrial buildings revitalization scheme. We plan to continue utilizing this unique opportunity going forward to upgrade our portfolio. Last but not least, we will prudently manage our operating and financial costs to prepare for any contingencies in the macro environment.

Having steered through difficult market conditions in the past, we are confident in our ability to successfully deal with future challenges. Due to the ongoing trend of office decentralization and, in particular, our strategic position in Kowloon East, Prosperity REIT with its strong fundamentals will, barring unforeseen circumstances, remain resilient amid the uncertain global economy.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank my fellow Board members, our management team, staff, service providers and business partners for their contributions to the success of Prosperity REIT.

I would also like to congratulate Ms. Mavis Wong, who has recently been promoted to Chief Executive Officer. Ms. Wong has been a key member of the investment and asset management team since the listing of Prosperity REIT.

Special thanks must go to The Hong Kong Institute of Directors for bestowing the Directors Of The Year Awards 2012 to our Board. We are honored to be recognized for our corporate governance practices by an authoritative institution and to receive such a strong vote of confidence.

Finally, I would like to express my deep gratitude to you, our unitholders, for your continuing support and confidence throughout the year.

Chiu Kwok Hung, Justin

Chairman

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

Hong Kong, 28 February 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Prosperity REIT owns a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. The total gross rentable area is 1,215,579 sq. ft., with a total of 430 car park spaces as at 31 December 2012.

Information about the properties in the portfolio, as at 31 December 2012, are 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	2,773	97.9%
Prosperity Millennia Plaza	North Point	217,955	43	1,632	99.6%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	436	100.0%
Prosperity Place	Kwun Tong	240,000	83 ⁵	1,301	96.1%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	818	99.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	726	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	266	98.5%
Total		1,215,579	430	7,952	98.5%

⁵ The number of car park spaces at Prosperity Place had been increased from 60 to 83 in order to fulfill the requirements of the conversion of Prosperity Place's use from industrial/office to commercial in the fourth quarter of 2012.

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 98.5% was recorded as at 31 December 2012, 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 22.3%.

	Occupancy rate (%)	Occupancy rate (%)	Percentage change⁶ Increase/(Decrease)
	<i>As at 31 Dec 2012</i>	<i>As at 31 Dec 2011</i>	
Grade A Office			
The Metropolis Tower	97.9	98.5	(0.6%)
Prosperity Millennia Plaza	99.6	100.0	(0.4%)
Commercial			
Harbourfront Landmark (portion)	100.0	100.0	-
Prosperity Place	96.1	98.8	(2.7%)
Industrial/Office			
Trendy Centre	99.2	96.3	2.9%
Prosperity Center (portion)	100.0	99.2	0.8%
Industrial			
New Treasure Centre (portion)	98.5	100.0	(1.5%)
Portfolio	98.5	98.8	(0.3%)

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.

⁶ 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. During 2012, a number of asset enhancement works were carried out at The Metropolis Tower, Prosperity Place and Trendy Centre. Asset enhancement initiatives will continue in 2013 across the entire portfolio, with prudently planned payback periods.

The Metropolis Tower

Occupying a prime location in the commercial hub of Hung Hom and featuring spectacular sea view of the Victoria Harbour, The Metropolis Tower enjoys convenient transportation access, with the Hung Hom MTR East Rail Station, the Cross Harbour Tunnel, several bus terminals and taxi stations nearby. A uniquely and meticulously designed green wall was installed at the entrance lobby in 2012 in order to further promote green life and environmental awareness to our tenants and the community, following the successful opening of the living green roof garden in 2010.

Prosperity Place

Prosperity Place is located in the Kwun Tong district of Kowloon East, an area which has recently experienced tremendous growth as a new commercial hub. In 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 car park entrance to create an eco-friendly surrounding and increase the environmental awareness to our tenants and the community.

The special waiver to convert Prosperity Place's use from industrial/office to commercial under the industrial buildings revitalization scheme was executed in the fourth quarter of 2012. The relevant additions and alterations works have been submitted to the Government for approval and are expected to be completed in the first half of 2013. Upon completion of the conversion, Prosperity Place will become a premium commercial landmark in the 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. To enhance the working environment of our tenants and increase competitiveness of the building, renovation works for the common washrooms and cargo lift lobbies on typical floors commenced in the fourth quarter of 2012, with a target completion date in the second quarter of 2013.

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 2013 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	83,961	18,673	102,634	81,943
Prosperity Millennia Plaza	52,140	12,456	64,596	50,789
Commercial				
Harbourfront Landmark (portion)	15,461	5,405	20,866	16,225
Prosperity Place	43,343	201	43,544	32,836
Industrial/Office				
Trendy Centre	31,108	5,950	37,058	28,177
Prosperity Center (portion)	25,006	2,895	27,901	20,934
Industrial				
New Treasure Centre (portion)	<u>10,101</u>	<u>1,666</u>	<u>11,767</u>	<u>8,567</u>
Total	<u><u>261,120</u></u>	<u><u>47,246</u></u>	<u><u>308,366</u></u>	<u><u>239,471</u></u>

Revenue

During the Reporting Year, revenue improved to HK\$308.4 million, being HK\$32.8 million or 11.9% higher than that of 2011.

The revenue comprised HK\$261.1 million of rental and car park income, plus HK\$47.3 million of rental related income. Rental and car park income was HK\$28.6 million or 12.3% above that of 2011.

Net Property Income

For the Reporting Year, the net property income was HK\$239.5 million, exceeding that of 2011 by HK\$28.0 million or 13.2%. The growth was mainly attributable to the strong rental reversion rate of 36.1% and the high tenant retention rate which resulted in higher income stream while saving in the operating expense. The cost-to-revenue ratio was reduced to 22.3%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$186.9 million, representing a total DPU of HK\$0.1354. The distributable income for the Reporting Year is 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) including a finance cost of HK\$10.2 million (equivalent to HK\$0.0074 per unit), which have been recorded in the consolidated statement of comprehensive income for the Reporting Year.

The distributable income for the half year from 1 July 2012 to 31 December 2012 is HK\$96.0 million, equivalent to a DPU of HK\$0.0694. The interim DPU from 1 January 2012 to 30 June 2012 was HK\$0.0660, and the total DPU for the Reporting Year is HK\$0.1354, which represents a distribution yield of 5.8%⁷. The DPU increased 12.6% YoY mainly due to the increase in net property income, as a result of the strong rental reversion rate and the high tenant retention rate during the Reporting Year.

The distribution for the half year from 1 July 2012 to 31 December 2012 will be paid on Tuesday, 16 April 2013.

⁷ Based on Prosperity REIT's closing unit price of HK\$2.35 as at 31 December 2012

Liquidity and Financing

As at 31 December 2012, 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\$20 million was drawn as at 31 December 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 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 22.4% as at 31 December 2012, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 27.3% as at 31 December 2012.

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\$947.7 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 2012	31 Dec 2011
	HK\$' 000	HK\$' 000
Fair value at the beginning of the year	6,991,000	5,934,000
Additional expenditure	13,280	12,946
Increase in fair value of investment properties	947,720	1,044,054
Fair value at the end of the year	<u>7,952,000</u>	<u>6,991,000</u>

Charges on Assets

As at 31 December 2012, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$7,885 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 19,424,000 units of Prosperity REIT by the REIT Manager which the REIT Manager received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

CORPORATE GOVERNANCE

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the "**Compliance Manual**") for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT will be set out in the Annual Report of Prosperity REIT for the Reporting Year. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Friday, 5 April 2013 to Wednesday, 10 April 2013, 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 Wednesday, 3 April 2013. The payment date of the final distribution will be on Tuesday, 16 April 2013.

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 2012.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Tuesday, 30 April 2013.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 10 May 2013. 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 2012

	<i>Notes</i>	<i>2012</i> <i>HK\$'000</i>	<i>2011</i> <i>HK\$'000</i> <i>(restated)</i>
Revenue	3	308,366	275,627
Property management fees		(6,948)	(6,351)
Property operating expenses		(61,947)	(57,764)
Total property operating expenses		<u>(68,895)</u>	<u>(64,115)</u>
Net property income		239,471	211,512
Interest income		84	2,782
Manager's fee		(36,837)	(32,569)
Trust and other expenses		(7,060)	(6,728)
Increase in fair value of investment properties		947,720	1,044,054
Finance costs	5	<u>(43,590)</u>	<u>(46,202)</u>
Profit before taxation and transactions with unitholders		1,099,788	1,172,849
Taxation	6	<u>(25,073)</u>	<u>(21,358)</u>
Profit for the year, before transactions with unitholders		1,074,715	1,151,491
Distribution to unitholders		<u>(186,868)</u>	<u>(163,518)</u>
Profit for the year, after transactions with unitholders		887,847	987,973
Other comprehensive income			
Change in fair value of cashflow hedge		<u>(10,881)</u>	<u>11,133</u>
Total comprehensive income for the year, after transactions with unitholders		<u>876,966</u>	<u>999,106</u>
Income available for distribution to unitholders		<u>186,868</u>	<u>163,518</u>
Basic earnings per unit (HK\$)	7	<u>0.78</u>	<u>0.85</u>

DISTRIBUTION STATEMENT

For the year ended 31 December 2012

	2012	2011
	HK\$'000	HK\$'000
		<i>(restated)</i>
Profit for the year, before transactions with unitholders	1,074,715	1,151,491
Adjustments:		
Manager's fee	36,774	32,514
Increase in fair value of investment properties	(947,720)	(1,044,054)
Finance costs	10,153	10,137
Deferred tax	12,946	13,430
	<hr/>	<hr/>
Income available for distribution (note (i))	186,868	163,518
	<hr/>	<hr/>
Distributions to unitholders:		
HK\$ 0.0660 (2011: HK\$0.0595) per unit for the six months ended 30 June (note (ii))	90,844	80,593
HK\$ 0.0694 (2011: HK\$0.0607) per unit for the six months ended 31 December (note (iii))	96,024	82,925
	<hr/>	<hr/>
	186,868	163,518
	<hr/>	<hr/>
Total distribution per unit (HK\$)	0.1354	0.1202
	<hr/>	<hr/>

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 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.

These adjustments for the current year include:

- (a) manager's fee paid in units of HK\$36,774,000 (2011: HK\$32,514,000) out of the total manager's fee of HK\$36,837,000 (2011: HK\$32,569,000) (the difference of HK\$ 63,000 (2011: HK\$55,000) are paid in cash);
 - (b) increase in fair value of investment properties of HK\$947,720,000 (2011: HK\$1,044,054,000);
 - (c) adjustment in respect of the difference between the accounting finance cost of HK\$43,590,000 (2011: HK\$46,202,000) less cash finance cost of HK\$33,437,000 (2011: HK\$36,065,000); and
 - (d) deferred tax provision of HK\$12,946,000 (2011 (restated): HK\$13,430,000).
- (ii) The distribution per unit of HK\$0.0660 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$0.0595) is calculated based on Prosperity REIT's income available for distribution of HK\$90,844,000 (six months ended 30 June 2011: HK\$80,593,000) over 1,375,762,318 units (30 June 2011: 1,355,008,050 units), representing units in issue as at 30 June 2012 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 2012. The distribution was paid to unitholders on 18 September 2012.
- (iii) The distribution per unit of HK\$0.0694 for the six months ended 31 December 2012 (six months ended 31 December 2011: HK\$0.0607) is calculated based on Prosperity REIT's income available for distribution of HK\$96,024,000 (six months ended 31 December 2011: HK\$82,925,000) over 1,383,838,170 units (31 December 2011: 1,365,888,233 units), representing units in issue as at 31 December 2012 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 2012

	Note	2012 HK\$'000	2011 HK\$'000 (restated)	2010 HK\$'000 (restated)
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties		7,952,000	6,991,000	5,934,000
Current assets				
Trade and other receivables	8	7,672	8,265	8,002
Tax recoverable		-	44	261
Bank balances and cash		44,305	52,945	29,832
Total current assets		51,977	61,254	38,095
Total assets		8,003,977	7,052,254	5,972,095
Non-current liabilities, excluding net assets attributable to unitholders				
Derivative financial instruments		32,059	21,178	32,311
Secured term loan	10	1,743,423	1,733,270	1,723,933
Deferred tax liabilities		132,723	119,777	106,347
Total non-current liabilities, excluding net assets attributable to unitholders		1,908,205	1,874,225	1,862,591
Current liabilities				
Trade and other payables	9	137,365	133,038	115,095
Amount due to related companies		10,245	11,431	8,113
Secured revolving loan	10	20,000	35,000	26,000
Provision for taxation		3,081	320	3,069
Manager's fee payable		9,875	8,640	7,577
Distribution payable		96,024	82,925	73,534
Total current liabilities		276,590	271,354	233,388
Total liabilities, excluding net assets attributable to unitholders		2,184,795	2,145,579	2,095,979
Net assets attributable to unitholders		5,819,182	4,906,675	3,876,116
Units in issue ('000)	11	1,379,867	1,360,443	1,342,637
Net asset value per unit (HK\$) attributable to unitholders	12	4.24	3.62	2.91

Notes

(1) General:

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on the Stock Exchange since 16 December 2005. Prosperity REIT is governed by the Deed of Trust made between the REIT Manager and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the “**Group**”) is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

Except as described below, the application of the amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. 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 entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the REIT Manager reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the REIT Manager has determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK\$281,993,000, HK\$454,392,000 and HK\$610,766,000 as at 1 January 2011, 31 December 2011 and 31 December 2012, respectively, with the corresponding adjustment being recognised in retained profits. In addition, the application has resulted in the Group's taxation for the year ended 31 December 2011 being reduced by HK\$172,399,000 and profit for the year, before transactions with unitholders for the year ended 31 December 2011 being increased by the same amount.

In the current year, no deferred taxes have been provided for changes in fair value of the Group's investment properties. The application of the amendments has resulted in the Group's taxation for the year ended 31 December 2012 being reduced by HK\$156,374,000 and profit for the year, before transactions with unitholders for the year ended 31 December 2012 being increased by the same amount.

**Amendments to HKAS 1 Presentation of Financial Statements
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued
in June 2012)**

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009 – 2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

Summary of the effect of the above change in accounting policy

The effect of change in accounting policy described above on the results for the current and prior year by line items are as follows:

	<i>2012</i> <i>HK\$000</i>	<i>2011</i> <i>HK\$000</i>
Decrease in taxation and corresponding increase in profit for the year, before transactions with unitholders	<u>156,374</u>	<u>172,399</u>
	<i>2012</i> <i>HK\$000</i>	<i>2011</i> <i>HK\$000</i>
<i>Impact on basic earnings per unit</i>		
Basic earnings per unit before adjustment	0.67	0.72
Adjustment in relation to application of amendments of HKAS 12	<u>0.11</u>	<u>0.13</u>
Reported basic earnings per unit	<u>0.78</u>	<u>0.85</u>

The effect of the change in accounting policy described above on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are as follows:

	<i>As at</i> <i>31 Dec 2011</i> <i>(originally stated)</i> <i>HK\$000</i>	<i>Adjustment</i> <i>HK\$000</i>	<i>As at</i> <i>31 Dec 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 Jan 2011</i> <i>(originally stated)</i> <i>HK\$000</i>	<i>Adjustment</i> <i>HK\$000</i>	<i>As at</i> <i>1 Jan 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>

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the amendments HKAS 1 ¹
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

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

² Effective for annual periods beginning on or after 1 January 2014

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

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

The REIT Manager anticipates that the application of other amendments and interpretations, based on the current operation, will have no material financial impact on the financial information and the disclosure in the consolidated financial statements.

(2) Significant Accounting Policies:

Basis of preparation of financial statements

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of Prosperity REIT.

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 REIT Code.

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, 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. All significant intercompany transactions and balances are eliminated on consolidation.

(3) Revenue:

	2012	2011
	HK\$'000	HK\$'000
Gross rental from investment properties:		
Rental income	241,440	214,291
Car park income	19,680	18,226
	<u>261,120</u>	<u>232,517</u>
Rental related income	<u>47,246</u>	<u>43,110</u>
	<u>308,366</u>	<u>275,627</u>

(4) Segment information:

Prosperity REIT is currently investing in seven office, commercial, 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 2012

	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	102,634	64,596	20,866	43,544	37,058	27,901	11,767	308,366
Segment profit	81,943	50,789	16,225	32,836	28,177	20,934	8,567	239,471
Interest income								84
Manager's fee								(36,837)
Trust and other expenses								(7,060)
Increase in fair value of investment properties								947,720
Finance costs								(43,590)
Profit before taxation and transactions with unitholders								<u>1,099,788</u>

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
	<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	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								(46,202)
Profit before taxation and transactions with unitholders								<u>1,172,849</u>

(5) Finance costs:

	2012 HK\$'000	2011 HK\$'000
Interest expense on		
Secured term loan	29,976	29,441
Equalisation of interest expense through cashflow hedges	13,401	14,898
	<u>43,377</u>	<u>44,339</u>
Secured revolving loan	213	1,863
	<u>43,590</u>	<u>46,202</u>

(6) Taxation:

	2012	2011
	HK\$'000	HK\$'000
		(restated)
Current tax	12,127	7,928
Deferred tax	12,946	13,430
	<u>25,073</u>	<u>21,358</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 is 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\$1,074,715,000 (2011 (restated): HK\$1,151,491,000) by the weighted average of 1,375,404,049 (2011: 1,352,423,464) 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. No diluted earnings per unit has been presented as there were no potential units in issue.

(8) Trade and other receivables:

	2012	2011
	HK\$'000	HK\$'000
Trade receivables	244	96
Deposit and prepayments	7,428	8,169
	<u>7,672</u>	<u>8,265</u>

Ageing analysis of the Group's trade receivables is as follows:

	2012	2011
	HK\$'000	HK\$'000
Current – 1 month	188	96
2 – 3 months	56	-
	<u>244</u>	<u>96</u>

(9) Trade and other payables:

	2012	2011
	HK\$'000	HK\$'000
Trade payables	723	2,468
Tenants' deposits		
- Outside parties	98,405	93,927
- Related parties	425	411
Rental received in advance		
- Outside parties	2,017	3,062
Other payables	35,795	33,170
	<u>137,365</u>	<u>133,038</u>

Ageing analysis of the Group's trade payables is as follows:

	2012	2011
	HK\$'000	HK\$'000
Current – 1 month	210	2,217
2 – 3 months	301	134
Over 3 months	212	117
	<u>723</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\$29,338,000 (2011: HK\$54,852,000).

(10) Borrowings:

	2012	2011
	HK\$'000	HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(26,577)	(36,730)
	<u>1,743,423</u>	<u>1,733,270</u>
Secured revolving loan	20,000	35,000
	<u>1,763,423</u>	<u>1,768,270</u>
Carrying amount repayable:		
Within one year	20,000	35,000
More than two years, but not exceeding five years	1,743,423	1,733,270
	<u>1,763,423</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	<u>17,805,847</u>	<u>31,453</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 year	<u>19,424,572</u>	<u>35,541</u>
Balance as at 31 December 2012	<u>1,379,867,101</u>	<u>2,894,125</u>

(12) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$32,059,000 (2011: HK\$21,178,000), and the total number of 1,379,867,101 units in issue as at 31 December 2012 (1,360,442,529 units in issue as at 31 December 2011).

(13) As at 31 December 2012, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$224,613,000 (2011: HK\$210,100,000) and the Group's total assets less current liabilities amounted to HK\$7,727,387,000 (2011: HK\$6,780,900,000).

(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 Dr. 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.