



HKEx Stock Code 股份代號 : 808



# Strong Foundations

Interim Report 2011 中期報告





## About Prosperity REIT

Prosperity Real Estate Investment Trust (“Prosperity REIT”) is the first private sector real estate investment trust (“REIT”) listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of seven high-quality office, industrial/office and industrial properties in Hong Kong, with a total gross rentable area of about 1.22 million sq.ft.

Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited (the “REIT Manager”).

## About The REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited (“ARA”). ARA, an affiliate of the Cheung Kong Group, is an Asian real estate fund management company focusing on the management of public listed REITs and private real estate funds.

The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT’s business strategies.

## Our Mission

The REIT Manager is staffed with experienced professionals who are dedicated to managing the assets of Prosperity REIT for the benefit of the unitholders through proactive asset management and multi-dimensional growth strategies.



- Exquisitely polished **pearls**, with their modest splendour and silky sheen, have always been synonymous with timeless glamour, reliability, wealth, and happiness. Their lustre can be likened to the success of the REIT Manager in increasing the asset value of the seven high-quality properties under Prosperity REIT, refining them to shine as bright as the luminous gleam of pearls.



## Contents

---

2	Chairman's Statement
4	Performance Highlights
6	Management Discussion and Analysis
12	Corporate Governance
20	Connected Party Transactions
27	Report on Review of Interim Financial Information
29	Interim Financial Statements
50	Performance Table
51	Investment Properties Portfolio
52	Corporate Information

# Chairman's Statement

---

## The saving in financial costs, together with our stable rental revenue, resulted in a year-on-year increase of 7.2% in distribution per unit

---

### Dear Unitholders,

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited (the "REIT Manager"), the manager of Prosperity Real Estate Investment Trust ("Prosperity REIT"), I am pleased to present Prosperity REIT's interim report for the six months from 1 January 2011 to 30 June 2011 (the "Reporting Period").

### Results and Distribution

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 distribution per unit ("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%<sup>1</sup>.

### 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 high 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%<sup>2</sup> 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%<sup>3</sup> 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

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$1.83 as at 30 June 2011

<sup>2</sup> Source: National Bureau of Statistics of China

<sup>3</sup> Source: Hong Kong Trade Statistics, HKSAR Census and Statistics Department

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.

## 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.

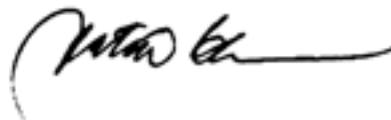
## Acknowledgement

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.



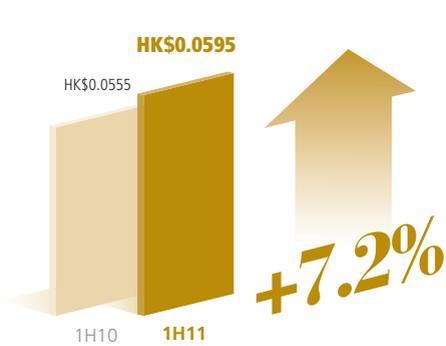
**Chiu Kwok Hung, Justin**

Chairman

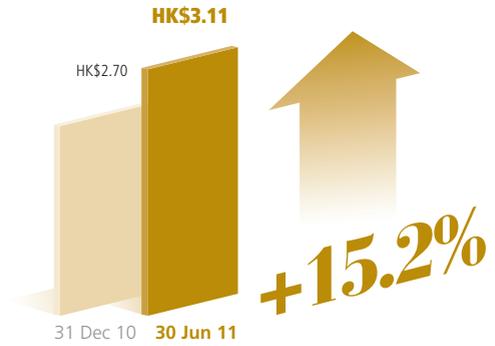
**ARA Asset Management (Prosperity) Limited**  
as manager of Prosperity REIT

Hong Kong, 12 August 2011

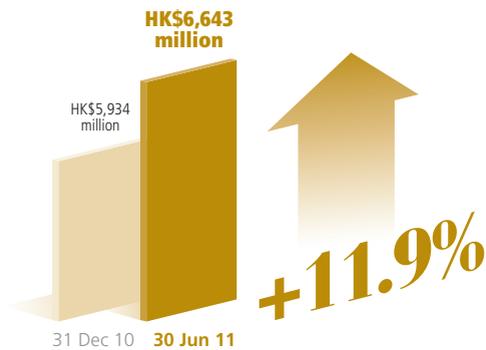
# Performance Highlights



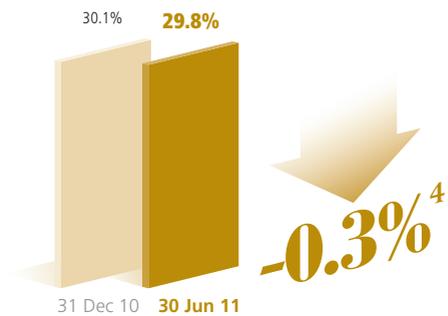
Distribution Per Unit<sup>1</sup>



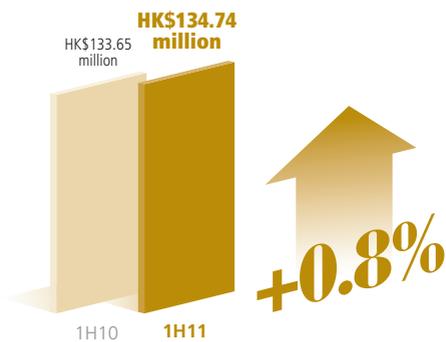
Net Asset Value Per Unit<sup>2</sup>



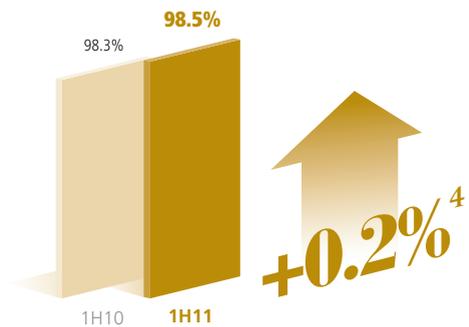
Property Valuation<sup>2</sup>



Gearing Ratio<sup>2</sup>



Revenue<sup>1</sup>



Occupancy Rate<sup>3</sup>

<sup>1</sup> Year-on-year comparison

<sup>2</sup> As at year/ period end

<sup>3</sup> As at 30 June

<sup>4</sup> Absolute change

## Distribution

	Six months ended 30 June (unaudited)		Percentage change Increase/ (Decrease)
	2011	2010	
DPU	<b>HK\$0.0595</b>	HK\$0.0555	7.2%

## Key financial figures

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

## Operation data

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

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

<sup>1</sup> Absolute change

# Management Discussion and Analysis

## Operations Review

Prosperity REIT owns a geographically diverse portfolio of seven commercial properties in the decentralised business districts of Hong Kong. The portfolio comprises 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.

The details of these properties as at 30 June 2011 are as follows:

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

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 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.

# Management Discussion and Analysis

## *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:

	<b>Turnover</b> HK\$'000	<b>Rental related income</b> HK\$'000	<b>Revenue</b> HK\$'000	<b>Net property income</b> HK\$'000
<b>Grade A Office</b>				
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
<b>Industrial/Office</b>				
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
<b>Industrial</b>				
New Treasure Centre (portion)	4,504	820	5,324	3,864
<b>Total</b>	<b>113,813</b>	<b>20,923</b>	<b>134,736</b>	<b>104,604</b>

## 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 worth rental and car park income, plus HK\$20.9 million of 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%.

# Management Discussion and Analysis

## 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.

## 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.

## 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:

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

## 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.

# 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.

## Board of Directors of the REIT Manager

The Board of the REIT Manager is responsible for the overall governance of the REIT Manager including establishing goals for the management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control which covers business risk management processes.

The Board is collectively responsible for the management of the business and affairs of the REIT Manager. The Board exercises its general powers within the limits defined by the articles of association of the REIT Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the REIT Manager. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors (“INEDs”). All Directors (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT Manager.

The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Mr. Chiu Kwok Hung, Justin who is a Non-executive Director. Ms. Wong Lai Hung, Mavis, an Executive Director and a Responsible Officer of the REIT Manager, is the Acting Chief Executive Officer.

## Internal Controls

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems and operational functions and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee. The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the internal control systems and compliance procedures.

The Board, through the Audit Committee, conducts reviews on the effectiveness of internal control system of Prosperity REIT, which shall cover all material controls including financial, operational and compliance controls, risk management functions, the adequacy of resources, qualifications and experience of the REIT Manager's staff who carry out Prosperity REIT's accounting and financial reporting function, and their training programmes and budget.

## Audit Committee

The REIT Manager has established an Audit Committee to assist the Board in reviewing the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommending for appointment and reviewing the relationship with the external auditors of Prosperity REIT periodically, as well as reviewing and supervising the internal control procedures and risk management systems.

The Audit Committee members are appointed by the Board from among the Directors of the REIT Manager. The Audit Committee presently comprises three INEDs, namely, Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam. Mr. Lan Hong Tsung, David is the chairman of the Audit Committee.

## Disclosures Committee

The REIT Manager has set up a Disclosures Committee to assist the Board in reviewing matters relating to the disclosure of information to unitholders and public announcements. The Disclosures Committee also works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee members are appointed by the Board from among the Directors of the REIT Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Ms. Wong Lai Hung, Mavis, Acting Chief Executive Officer and an Executive Director, and Mr. Lan Hong Tsung, David, an Independent Non-executive Director. Ms. Wong Lai Hung, Mavis is the chairman of the Disclosures Committee.

# Corporate Governance

## Designated (Finance) Committee

The REIT Manager had set up a Designated (Finance) Committee to assist the Board in reviewing matters relating to hedging strategies, financing and re-financing arrangements and transactions involving derivative instruments for hedging purposes.

The Designated (Finance) Committee presently comprises, among others, four Directors, namely, Ms. Wong Lai Hung, Mavis, Acting Chief Executive Director and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, Mr. Lan Hong Tsung, David and Mr. Wong Kwai Lam, INEDs. Ms. Wong Lai Hung, Mavis is the convener of the Designated (Finance) Committee.

## Extension of the Connected Party Transactions Waiver

The REIT Manager had, in 2005, obtained a waiver granted by the Securities and Futures Commission (the "SFC") from strict compliance with the disclosure requirements and the unitholders' approval requirements (the "Initial Waiver") under Chapter 8 of the Code on Real Estate Investment Trusts (the "REIT Code") in respect of certain categories of connected party transactions between Prosperity REIT and other companies or entities held or controlled by Prosperity REIT (the "Prosperity REIT Group") and (i) Cheung Kong (Holdings) Limited ("Cheung Kong") and any person who is a connected person of Prosperity REIT as a result of its connection with Cheung Kong (the "Cheung Kong Connected Persons Group") and/or (ii) the REIT Manager or any person who is a connected person of Prosperity REIT as a result of its connection with the REIT Manager (the "Manager Group") for a period expired on 31 December 2008.

The REIT Manager had, in 2008, obtained an extension of the Initial Waiver for three financial years ending 31 December 2011 (the "2008 Extended Waiver"), and the 2008 Extended Waiver will expire on 31 December 2011.

The REIT Manager has made a submission to the SFC for further extension of the 2008 Extended Waiver for three financial years ending 31 December 2014 (the "Further Extension"), and has proposed new annual monetary limits for the connected party transactions with the Cheung Kong Connected Persons Group and the Manager Group for the periods ending 31 December 2012, 31 December 2013 and 31 December 2014. An ordinary resolution to approve the Further Extension and the new annual monetary limits was duly passed by the independent unitholders at the extraordinary general meeting of unitholders held on 27 May 2011.

On 21 June 2011, the SFC granted the Further Extension, subject to the following conditions:

### (a) Extensions or modifications

The Further Extension has been granted for a period of three financial years ending 31 December 2014. The waiver may be extended beyond 31 December 2014, and/or the conditions of the Further Extension may be modified from time to time, provided that:

- (i) the approval of unitholders other than those who have a material interest in the relevant transactions, within the meaning of 8.11 of the REIT Code (the "Independent Unitholders") is obtained by way of an ordinary resolution passed in a general meeting of unitholders;
- (ii) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) any extension of the period of the Further Extension shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval referred to in (i) above is obtained.

### (b) Annual limits

The annual value of the following connected party transactions (the "CPTs") shall not exceed the respective annual limits set out in the following table:

Categories of CPTs	For the year ending 31 December 2012	For the year ending 31 December 2013	For the year ending 31 December 2014
(a) Leasing/licensing transactions with the Cheung Kong Connected Persons Group	HK\$51,800,000	HK\$51,800,000	HK\$51,800,000
(b) Leasing/licensing transactions with the Manager Group	HK\$5,100,000	HK\$5,100,000	HK\$5,100,000
(c) Property management transactions	HK\$30,800,000	HK\$32,300,000	HK\$33,900,000

In respect of leasing/licensing transactions, an independent valuation will be conducted for each of such leasing/licensing transactions except where they are conducted on standard or published rates.

### (c) Disclosure in semi-annual and annual reports

Details of the CPTs will be disclosed in Prosperity REIT's semi-annual and annual reports, as required under 8.14 of the REIT Code.

# Corporate Governance

## **(d) Auditors' review procedures**

In respect of each relevant financial period, the REIT Manager will engage and agree with the auditors of Prosperity REIT to perform certain review procedures on the CPTs. The auditors shall then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report will be provided to the SFC), confirming whether all the CPTs:

- (i) have received the approval of the directors of the REIT Manager (including the INEDs);
- (ii) are in accordance with the pricing policies of Prosperity REIT;
- (iii) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) the total value in respect of which has not exceeded the respective annual limits (where applicable).

## **(e) Review by the INEDs of the REIT Manager**

The INEDs of the REIT Manager will review the relevant CPTs annually and confirm in Prosperity REIT's annual report for the relevant financial period that such transactions have been entered into:

- (i) in the ordinary and usual course of business of Prosperity REIT;
- (ii) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Prosperity REIT than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders as a whole.

## **(f) Auditors' access to books and records**

The REIT Manager will allow, and will procure the counterparty to the relevant CPTs to allow, the auditors of Prosperity REIT sufficient access to their records for the purpose of reporting on the transactions.

**(g) Notification to the SFC**

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the INEDs will not be able to confirm the matters set out in paragraphs (d) and (e) above.

**(h) Subsequent increases in annual caps with independent unitholders' approval**

If necessary, for example, where there are further asset acquisitions by Prosperity REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the REIT Manager may, from time to time in the future, seek to increase one or more of the annual limits set out in paragraph (b) above, provided that:

- (i) the approval of Independent Unitholders is obtained by way of an ordinary resolution passed at a general meeting of unitholders;
- (ii) disclosure of details of the proposal to increase the cap amounts shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) the requirements referred to in paragraphs (b) to (g) above shall continue to apply to the relevant transactions, save that the increased annual limits shall apply.

**(i) 8.14 of the REIT Code**

The REIT Manager will comply with all requirements under 8.14 of the REIT Code where there is any material change to the terms of the relevant CPTs or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or unitholders' approval.

Details of the CPTs will be disclosed in the semi-annual and annual reports of Prosperity REIT as required under 8.14 of the REIT Code. The INEDs of the REIT Manager will review the CPTs annually and confirm whether such transactions are carried out in the ordinary and usual course of business of Prosperity REIT based on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the unitholders.

# Corporate Governance

## Code Governing Dealings in Units by Directors, or the REIT Manager and Interests of the Significant Unitholders

The REIT Manager has adopted a code governing dealings in the securities of Prosperity REIT by Directors or the REIT Manager (collectively, the “Management Persons”) (the “Units Dealing Code”), on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Units Dealing Code has been extended to apply to the senior executives, officers and other employees of the REIT Manager.

Specific enquiry has been made with the Management Persons, the senior executives, officers and other employees of the REIT Manager, who confirmed that they have complied with the required standard set out in the Units Dealing Code.

The REIT Manager has also adopted procedures for monitoring disclosure of interests by the REIT Manager, the Directors and the chief executive of the REIT Manager. The provisions of Part XV of the Securities and Futures Ordinance (the “SFO”) shall be deemed to apply to the REIT Manager, the Directors, the chief executive of the REIT Manager and each unitholder and all persons claiming through or under him/her.

The Trust Deed contains provisions to deem application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify The Stock Exchange of Hong Kong Limited and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the “Trustee”). The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT and it has recorded in the register, against a person’s name, the particulars provided pursuant to the disclosure of interests notifications and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

## Change of Directors' Information

Subsequent to publication of the Annual Report 2010 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information during the period from 1 January 2011 to 30 June 2011:

1. Mr. Lim Hwee Chiang has been acting as a non-executive director of Hui Xian Asset Management Limited (the manager of Hui Xian REIT) since 21 December 2010 and Hui Xian REIT was listed in Hong Kong on 29 April 2011. Mr. Lim was also appointed as a non-executive director of APN Property Group Limited, a company listed in Australia, with effect from 2 May 2011.
2. Mrs. Sng Sow-Mei (alias Poon Sow Mei) has been acting as an independent non-executive director of Hutchison Port Holdings Management Pte Limited (the manager of Hutchison Port Holdings Trust) since 23 February 2011 and Hutchison Port Holdings Trust was listed in Singapore on 18 March 2011.

## Review of Interim Report

The interim report of Prosperity REIT for the Reporting Period has been reviewed by the Disclosures Committee and the Audit Committee. The interim financial statements have also been reviewed 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.

## 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.

# Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Prosperity REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

## Connected Party Transactions – Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Period:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the six months ended 30 June 2011	Rental deposit received as at 30 June 2011
			HK\$	HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	626,994	335,433
Tremayne Investments Limited	Subsidiary of an associate of a significant holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	9,398,772	see note 7
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>5</sup>	116,292	61,064
Hutchison Telephone Company Limited	Subsidiary of an associate of a significant holder <sup>2</sup>	Licence of property of Prosperity REIT <sup>6</sup>	24,000	15,000
<b>Total</b>			<b>10,166,058</b>	<b>411,497</b>

<sup>1</sup> Significant holder being Cheung Kong.

<sup>2</sup> The connected parties are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

<sup>3</sup> For 2/F, Units 302-303, 306-307 & 703, New Treasure Centre.

<sup>4</sup> For 3/F, 5/F & 6/F, Harbourfront Landmark.

<sup>5</sup> For Unit 306, Prosperity Place.

<sup>6</sup> For installation of micro-transmission station equipment at Prosperity Place.

<sup>7</sup> By a bank guarantee of HK\$4,850,346 given by HWL.

## Connected Party Transactions – Building Management Services

The following table sets forth information in relation to building management services provided by the connected parties for the properties of Prosperity REIT during the Reporting Period:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/receivable for the six months ended 30 June 2011 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	88,723
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	3,549
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	129,453
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	35,095
Harbourfront Landmark Premium Services Limited <sup>1</sup>	Subsidiary of an associate of a significant holder <sup>4</sup>	Remuneration of DMC Manager	34,857
<b>Total</b>			<b>291,677</b>

<sup>1</sup> These managers appointed under the deed of mutual covenant of the properties of Prosperity REIT (the "DMC Manager") are connected parties by virtue of their relationship with Cheung Kong.

<sup>2</sup> They are the carpark managers of certain properties of Prosperity REIT (the "Carpark Manager") as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005, as modified, amended and/or extended from time to time.

<sup>3</sup> Significant holder being Cheung Kong.

<sup>4</sup> The connected party is an indirect wholly-owned subsidiary of HWL.

# Connected Party Transactions

## Connected Party Transactions – Expenses

The following table sets forth information on all the connected party transactions in which Prosperity REIT incurred its expenses (other than the building management fees and other charges of the building accounts mentioned above) during the Reporting Period:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2011 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Property management and lease management fee	3,122,057
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Marketing service fee	4,218,774
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Carpark lease agency fee	710,199
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	893,103
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	15,615,636
Cheung Kong Companies <sup>2</sup>	Subsidiaries and associates of a significant holder <sup>1</sup>	Back-office support service fee	451,404
<b>Total</b>			<b>25,011,173</b>

<sup>1</sup> Significant holder being Cheung Kong.

<sup>2</sup> Cheung Kong Companies include Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.

## Connected Party Transaction with HSBC Group\* for Bank Deposits

Prosperity REIT has engaged The Hongkong and Shanghai Banking Corporation Limited, the holding company of the Trustee, to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom) within the Reporting Period.

\* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Prosperity REIT).

## Connected Party Transactions – Lease transactions under which the annual rent exceed HK\$1 million

Name of Connected Party (Tenant)	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Annual income <sup>2</sup> HK\$
Tremayne Investments Limited	Subsidiary of an associate of a significant holder <sup>1</sup>	Tenancy of 3/F, 5/F & 6/F, Harbourfront Landmark	13,863,780
<b>Total</b>			<b>13,863,780</b>

<sup>1</sup> The connected party is an indirect wholly-owned subsidiary of HWL, an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

<sup>2</sup> The annual income stated herein refers to the rental income, excluding charge out collection, that would have been received for a 12-month period according to the relevant tenancy agreements.

# Connected Party Transactions

## Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT for the Reporting Period and hence amounts due from Prosperity REIT as at 30 June 2011 are as follows:

<b>Name of Connected Party</b>	<b>Amount payable</b> HK\$
Cheung Kong	2,253
Cheung Kong Infrastructure Holdings Limited	21,833
Goodwell-Prosperity Property Services Limited	2,200,825
Goodwell Property Management Limited	3,511,343
E-Park Parking Management Limited	239,007
Citybase Property Management Limited	1,764,905
Harbourfront Landmark Premium Services Limited	357,307
<b>Total</b>	<b>8,097,473</b>

## Repurchase 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.

## Holdings of Connected Persons in the Units of Prosperity REIT

The following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 30 June 2011		As at 31 December 2010
	Number of Units	Percentage of Unitholdings <sup>5</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	<b>176,328,129</b>	<b>13.06%</b>	176,328,129
Wide Option Investments Limited <sup>1</sup>	<b>98,883,559</b>	<b>7.32%</b>	98,883,559
HKSCC Nominees Limited <sup>2</sup>	<b>984,296,985</b>	<b>72.88%</b>	978,155,092
HSBC <sup>3</sup>	<b>35,437</b>	<b>0.0026%</b>	35,437
ARA Asset Management (Prosperity) Limited <sup>4</sup>	<b>1,846,124</b>	<b>0.14%</b>	460

<sup>1</sup> Total Win Group Limited ("Total Win") is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 30 June 2011. Total Win is a direct wholly-owned subsidiary of Cheung Kong Investment Company Limited, which was therefore deemed to hold 176,328,129 units held by Total Win as at 30 June 2011. Total Win is an indirect wholly-owned subsidiary of Cheung Kong.

Wide Option Investments Limited ("Wide Option") is a connected person of Prosperity REIT as it is an associate (as defined under the REIT Code) of Total Win as at 30 June 2011. Wide Option is a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong.

Cheung Kong was deemed to hold 275,211,688 units as at 30 June 2011, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

<sup>2</sup> HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 30 June 2011. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.

<sup>3</sup> HSBC Holdings plc. and other members of its group ("HSBC") are connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee of Prosperity REIT, is an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 30 June 2011 and 31 December 2010. The Trustee's directors, senior executives, officers and their associates were beneficially interested in 35,187 units as at 30 June 2011 and 31 December 2010. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 30 June 2011 and 250 units as at 31 December 2010.

# Connected Party Transactions

<sup>4</sup> ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined under the REIT Code) of Prosperity REIT as at 30 June 2011.

<sup>5</sup> The total number of issued units as at 30 June 2011 is 1,350,556,346.

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 30 June 2011.

## Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager in the Units of Prosperity REIT

As at 30 June 2011, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed are as follows:

Name	Number of Units		Percentage of Unitholdings <sup>2</sup>
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	1,846,124		0.14%
Lim Hwee Chiang <sup>1</sup>		1,846,124	0.14%

<sup>1</sup> Mr. Lim Hwee Chiang is deemed to be interested in 1,846,124 units of Prosperity REIT by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporations including ARA Asset Management (Holdings) Limited, the holding company of the REIT Manager.

<sup>2</sup> The total number of issued units as at 30 June 2011 is 1,350,556,346.

Save as disclosed above, none of the Directors and chief executive of the REIT Manager had any interest in the units of Prosperity REIT as at 30 June 2011.

# Report on Review of Interim Financial Information



**TO THE BOARD OF DIRECTORS OF  
ARA ASSET MANAGEMENT (PROSPERITY) LIMITED**

## Introduction

We have reviewed the interim financial information set out on pages 29 to 49, which comprises the condensed consolidated statement of financial position of Prosperity Real Estate Investment Trust as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in net assets attributable to unitholders, condensed consolidated statement of cash flows and the distribution statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. ARA Asset Management (Prosperity) Limited, as manager of Prosperity Real Estate Investment Trust, is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review 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. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

# Report on Review of Interim Financial Information

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

12 August 2011

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

		<b>Six months ended 30 June</b>	
		<b>2011</b>	<b>2010</b>
	Notes	<b>HK\$'000</b> <b>(unaudited)</b>	<b>HK\$'000</b> <b>(unaudited)</b>
<b>Revenue</b>	4	<b>134,736</b>	133,651
Property management fees		<b>(3,122)</b>	(3,109)
Property operating expenses	6	<b>(27,010)</b>	(24,740)
Total property operating expenses		<b>(30,132)</b>	(27,849)
<b>Net property income</b>		<b>104,604</b>	105,802
Interest income		<b>338</b>	10
Manager's fee		<b>(15,615)</b>	(13,872)
Trust and other expenses	7	<b>(3,532)</b>	(3,129)
Change in fair value of investment properties		<b>702,275</b>	266,811
Finance costs	8	<b>(22,292)</b>	(34,758)
<b>Profit before taxation and transactions with unitholders</b>		<b>765,778</b>	320,864
Taxation	9	<b>(125,951)</b>	(52,758)
<b>Profit for the period, before transactions with unitholders</b>		<b>639,827</b>	268,106
Distribution to unitholders		<b>(80,593)</b>	(74,297)
<b>Profit for the period, after transactions with unitholders</b>		<b>559,234</b>	193,809
<b>Other comprehensive income</b>			
Change in fair value of cash flow hedge		<b>32,732</b>	17,774
Reclassification adjustment in respect of cash flow hedge		<b>–</b>	6,663
<b>Total other comprehensive income</b>		<b>32,732</b>	24,437
<b>Total comprehensive income for the period, after transactions with unitholders</b>		<b>591,966</b>	218,246
<b>Income available for distribution to unitholders</b>		<b>80,593</b>	74,297
<b>Basic earnings per unit and diluted earnings per unit (HK\$)</b>	10	<b>0.47</b>	0.20

# Distribution Statement

For the six months ended 30 June 2011

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

	Notes	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	6,643,000	5,934,000
Derivative financial instruments	16	421	–
		<b>6,643,421</b>	5,934,000
<b>Current assets</b>			
Trade and other receivables	12	9,580	8,002
Tax recoverable		48	261
Bank balances and cash		319,644	29,832
Total current assets		<b>329,272</b>	38,095
<b>Total assets</b>		<b>6,972,693</b>	5,972,095
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	16	–	32,311
Secured term loan	15	1,728,165	1,723,933
Deferred tax liabilities		510,761	388,340
Total non-current liabilities, excluding net asset attributable to unitholders		<b>2,238,926</b>	2,144,584
<b>Current liabilities</b>			
Trade and other payables	13	120,348	115,095
Amounts due to related companies	14	8,098	8,113
Secured revolving loan	15	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		<b>532,703</b>	233,388
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,771,629</b>	2,377,972
<b>Net assets attributable to unitholders</b>		<b>4,201,064</b>	3,594,123
<b>Units in issue ('000)</b>	17	<b>1,350,556</b>	1,342,637
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	18	<b>3.11</b>	2.70

# Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2011

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2011 (audited)	2,827,131	(91,278)	(32,311)	890,581	3,594,123
<b>OPERATIONS</b>					
Profit for the period, before transactions with unitholders	-	-	-	639,827	639,827
Distribution paid and payable	-	-	-	(80,593)	(80,593)
	-	-	-	559,234	559,234
Change in fair value of cash flow hedge	-	-	32,732	-	32,732
Total comprehensive income for the period	-	-	32,732	559,234	591,966
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager	14,975	-	-	-	14,975
Net assets attributable to unitholders as at 30 June 2011 (unaudited)	2,842,106	(91,278)	421	1,449,815	4,201,064

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2010 (audited)	2,799,290	(91,278)	(44,636)	385,855	3,049,231
<b>OPERATIONS</b>					
Profit for the period, before transactions with unitholders	–	–	–	268,106	268,106
Distribution paid and payable	–	–	–	(74,297)	(74,297)
Change in fair value of cash flow hedge	–	–	–	193,809	193,809
Reclassification adjustment in respect of cash flow hedge	–	–	17,774	–	17,774
	–	–	6,663	–	6,663
Total comprehensive income for the period	–	–	24,437	193,809	218,246
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager	13,608	–	–	–	13,608
Net assets attributable to unitholders as at 30 June 2010 (unaudited)	2,812,898	(91,278)	(20,199)	579,664	3,281,085

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>103,793</b>	103,986
Net cash used in investing activities	<b>(6,387)</b>	(6,179)
Net cash from (used in) financing activities:		
Origination fees	<b>(799)</b>	–
Drawdown of secured revolving loan	<b>284,000</b>	–
Interest payment of term loan and revolving loan	<b>(17,261)</b>	(25,998)
Distribution to unitholders	<b>(73,534)</b>	(72,300)
	<b>192,406</b>	(98,298)
Net increase (decrease) in cash and cash equivalents	<b>289,812</b>	(491)
Cash and cash equivalents at beginning of the period	<b>29,832</b>	53,373
<b>Cash and cash equivalents at end of period, represented by bank balances and cash</b>	<b>319,644</b>	52,882

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2011*

## 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 of Hong Kong Limited since 16 December 2005. Prosperity REIT is governed by the deed of trust dated 29 November 2005 (as amended) (the "Trust Deed") made between the REIT Manager and HSBC Institutional Trust Services (Asia) Limited (the "Trustee") and the REIT Code issued by the Securities and Futures Commission.

The principal activity of Prosperity REIT and its subsidiaries (the "Group") is to own and invest in a portfolio of office, 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.

## 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 REIT Code 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 the Group, the Group 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 3 PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost 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 the Group's annual financial statements for the year ended 31 December 2010, except as described below.

In the current period, the Group 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.

The Group 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 <sup>1</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosures of interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

## 4 REVENUE

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Gross rental from investment properties		
Rental income	<b>104,951</b>	104,272
Car park income	<b>8,862</b>	8,297
	<b>113,813</b>	112,569
Rental related income	<b>20,923</b>	21,082
	<b>134,736</b>	133,651

## 5 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, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and 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 HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
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)
Change in fair value of investment properties								702,275
Finance costs								(22,292)
Profit before taxation and transactions with unitholders								765,778

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 5 SEGMENT INFORMATION (Continued)

### Six months ended 30 June 2010 (unaudited)

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated 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.

## 6 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Building management expenses	13,549	12,541
Utilities	2,836	2,766
Car park operating expenses	2,038	1,955
Marketing service fee	4,219	3,058
Lease commission	729	1,041
Repairs and maintenance	858	1,021
Valuation fees (paid to principal valuer)	85	40
Audit fee	537	562
Back-office support service fee	416	378
Others	1,743	1,378
	<b>27,010</b>	24,740

## 7 TRUST AND OTHER EXPENSES

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Audit fee	119	124
Trustee's fee	893	791
Bank charges	550	123
Legal and professional fees	240	200
Registrar fee	300	359
Back-office support service fee	35	29
Public relations-related expenses	160	80
Trust administrative expenses	1,235	1,423
	<b>3,532</b>	3,129

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 8 FINANCE COSTS

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

## 9 TAXATION

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

## 10 EARNINGS PER UNIT

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) 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.

## 11 INVESTMENT PROPERTIES

	<b>1 January 2011 to 30 June 2011 HK\$'000 (unaudited)</b>	1 January 2010 to 31 December 2010 HK\$'000 (audited)
<hr/>		
FAIR VALUE		
At beginning of the period/year	<b>5,934,000</b>	5,256,000
Additional expenditure	<b>6,725</b>	7,793
Change in fair value of investment properties	<b>702,275</b>	670,207
<hr/>		
At end of the period/year	<b>6,643,000</b>	5,934,000
<hr/>		

On 30 June 2011 and 31 December 2010, an independent valuation was undertaken by Savills Valuation and Professional Services Limited. The firm is an independent qualified professional valuer not connected to the Group and having appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 11 INVESTMENT PROPERTIES (Continued)

All of the Group's property interests in properties located in Hong Kong are held under medium-term leases, which are finance lease in nature, to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

Certain of the Group's investment properties as at 30 June 2011, with aggregate carrying value of HK\$6,589,900,000 (31 December 2010: HK\$5,887,600,000), have been pledged to secure banking facilities granted to the Group.

## 12 TRADE AND OTHER RECEIVABLES

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Trade receivables	<b>567</b>	376
Deposits, prepayments and other receivables	<b>9,013</b>	7,626
	<b>9,580</b>	8,002

Ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Current – 1 month	<b>223</b>	223
2 – 3 months	<b>284</b>	153
Over 3 months	<b>60</b>	–
	<b>567</b>	376

## 13 TRADE AND OTHER PAYABLES

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Trade payables	<b>645</b>	562
Tenants' deposits		
– Outside parties	<b>82,409</b>	76,165
– Related parties	<b>411</b>	411
Rental received in advance		
– Outside parties	<b>1,718</b>	1,430
Other payables	<b>35,165</b>	36,527
	<b>120,348</b>	115,095

Ageing analysis of the Group's trade payables presented based on invoice date at the end of the reporting period is as follows:

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Current – 1 month	<b>216</b>	249
2 – 3 months	<b>374</b>	186
Over 3 months	<b>55</b>	127
	<b>645</b>	562

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).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 14 AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies arose from expenses accrued on back-office services, property management services and car park management services provided by related companies. The amounts are unsecured, interest-free and repayable on demand.

## 15 BORROWINGS

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

Under the banking facility agreement, the Group has been granted a facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility.

The term and conditions of the facilities are as follows:

- (i) HK\$1,770,000,000 term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.
- (ii) HK\$430,000,000 revolving loan bears interest at floating interest rate of HIBOR+0.81% per annum and the repayment term was determined on each drawdown date.

## 15 BORROWINGS (Continued)

Both the term loan and revolving loan were secured by the Group's investment properties as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for the term loan and revolving loan granted to a subsidiary.

The origination fees consist of advisory fee and front-end fee for the banking facility and are measured at amortised cost.

## 16 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Cash flow hedges – interest rate swap		
Classified as:		
– Non-current assets	<b>421</b>	–
– Non-current liabilities	–	(32,311)
	<b>421</b>	(32,311)

The Group uses interest rate swap as hedging instrument in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowing from floating rates to fixed rates.

Contract with notional amount of HK\$1,416,000,000 (31 December 2010: HK\$1,416,000,000) will mature on 16 June 2015. This contract has fixed interest payments at 1.34% (31 December 2010: 1.34%) per annum and has floating interest receipts at three months HIBOR for periods up until 16 June 2015 (31 December 2010: 16 June 2015). The REIT Manager designated that the interest rate swap is effective hedging instrument for both years presented.

The above derivative is measured at fair value at the end of each reporting period. Its fair value is determined based on the discounted future cash flows using the applicable yield curve for the duration of the swap.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 17 UNITS IN ISSUE

	Number of units	HK\$'000
Balance at 1 January 2010	<b>1,323,581,882</b>	<b>2,799,290</b>
Payment of Manager's base fee and variable fee through issuance of new units during the year	<b>19,054,800</b>	<b>27,841</b>
Balance at 31 December 2010	<b>1,342,636,682</b>	<b>2,827,131</b>
Payment of Manager's base fee and variable fee through issuance of new units during the period	<b>7,919,664</b>	<b>14,975</b>
Balance at 30 June 2011	<b>1,350,556,346</b>	<b>2,842,106</b>

Subsequent to the period end date, 4,451,704 units at HK\$1.8371 per unit were issued to the REIT Manager as settlement of base fee and variable fee for the period from 1 April 2011 to 30 June 2011.

## 18 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per unit is calculated based on the net assets of the Group 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).

## 19 MAJOR NON-CASH TRANSACTION

During the period, the REIT Manager earned a fee of HK\$15,615,000 (2010: HK\$13,872,000) of which HK\$15,589,000 (2010: HK\$13,848,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$7,411,000 (2010: HK\$6,785,000) was settled through the issuance of units to the REIT Manager while the balance of HK\$8,178,000 (2010: HK\$7,063,000) will be paid in units subsequent to the period end.

## 20 NET CURRENT LIABILITIES

As at 30 June 2011, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$203,431,000 (31 December 2010: HK\$195,293,000).

## 21 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2011, the Group's total assets less current liabilities amounted to HK\$6,439,990,000 (31 December 2010: HK\$5,738,707,000).

## 22 CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with connected and related parties:

	Notes	Six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Rent and rental related income from			
E-Park Parking Management Limited	(a)	<b>116</b>	116
Goodwell Property Management Limited	(a)	<b>627</b>	720
Hutchison Telephone Company Limited	(b)	<b>24</b>	24
Tremayne Investments Limited	(b)	<b>9,399</b>	9,399
Carpark lease agency fee for the operations of the Group's carpark E-Park Parking Management Limited	(a)	<b>710</b>	666
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>3,122</b>	3,109
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>4,219</b>	3,058
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>893</b>	791
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>15,615</b>	13,872
Back-office support service fee			
Cheung Kong Companies	(c)	<b>451</b>	407

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Balances with related parties are as follows:

		<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
Amounts due to related companies			
Cheung Kong (Holdings) Limited	(a)	<b>2</b>	2
Cheung Kong Infrastructure Holdings Limited	(b)	<b>22</b>	–
Citybase Property Management Limited	(a)	<b>1,765</b>	1,410
Goodwell-Prosperity Property Services Limited	(a)	<b>2,201</b>	2,056
Goodwell Property Management Limited	(a)	<b>3,512</b>	3,989
Harbourfront Landmark Premium Services Limited	(b)	<b>357</b>	411
E-Park Parking Management Limited	(a)	<b>239</b>	245
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	<b>61</b>	61
Goodwell Property Management Limited	(a)	<b>335</b>	335
Hutchison Telephone Company Limited	(b)	<b>15</b>	15

Notes:

- (a) These companies are the subsidiaries of Cheung Kong (Holdings) Limited ("CKH"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.
- (b) These companies are the subsidiaries of Hutchison Whampoa Limited, an associate of CKH and a unitholder of Prosperity REIT.
- (c) These companies are CKH and its subsidiaries and associates being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.

## 22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Under the Code of Real Estate Investment Trust issued by the Securities and Futures Commission, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the period, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$292,000 (2010: HK\$293,000).

# Performance Table

## Results Analysis

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	<b>134,736</b>	133,651
Net property income	<b>104,604</b>	105,802
Profit for the period, before transactions with unitholders	<b>639,827</b>	268,106
Income available for distribution	<b>80,593</b>	74,297
Basic earnings per unit and diluted earnings per unit (HK\$)	<b>0.47</b>	0.20
Distribution per unit (HK\$)	<b>0.0595</b>	0.0555

## Major Assets and Liabilities

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
	Investment properties	<b>6,643,000</b>
Secured bank loans, excluding origination fees	<b>(2,080,000)</b>	(1,796,000)
Net asset value	<b>4,201,064</b>	3,594,123
Net asset value per unit (HK\$)	<b>3.11</b>	2.70

## Other Information

The highest traded price during the period/year (HK\$)	<b>2.00</b>	1.77
The highest discount of the traded price to net asset value	<b>(35.7%)</b>	(34.40%)
The lowest traded price during the period/year (HK\$)	<b>1.78</b>	1.31
The lowest discount of the traded price to net asset value	<b>(42.8%)</b>	(51.5%)
The net yield per unit based on market price at the end of period/year <sup>1</sup>	<b>6.5%<sup>1</sup></b>	6.3% <sup>1</sup>

1. Annualised yield based on the distribution per unit of HK\$0.0595 for the six months ended 30 June 2011 and last traded price of HK\$1.83 as of 30 June 2011. For the year ended 31 December 2010, the yield is based on the distribution per unit of HK\$0.1101 and the closing market price of HK\$1.76 as at 31 December 2010.

# Investment Properties Portfolio

As at 30 June 2011

Property	Type	Lease term	Lease expiry date	Location	Valuation
					30 June 2011 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	2,445
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	1,426
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	375
Prosperity Place	I/O	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	886
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	711
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	577
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	223
<b>Total</b>					<b>6,643</b>

Note: Type of properties: O-Office, I/O-Industrial/Office, I-Industrial

# Corporate Information

## Board of Directors of the REIT Manager

Chiu Kwok Hung, Justin  
*Chairman and Non-executive Director*

Lim Hwee Chiang  
*Non-executive Director*

Wong Lai Hung, Mavis<sup>1</sup>  
*Executive Director and Acting Chief Executive Officer*

Ma Lai Chee, Gerald  
*Non-executive Director*

Lan Hong Tsung, David  
*Independent Non-executive Director*

Sng Sow-Mei (alias Poon Sow Mei)  
*Independent Non-executive Director*

Wong Kwai Lam<sup>2</sup>  
*Independent Non-executive Director*

*Mr. Stephen Henry Chu was the Executive Director and Chief Executive Officer before he resigned on 8 April 2011.*

*Mr. Robert Douglas Pope was one of the Independent Non-executive Directors before he passed away on 6 March 2011.*

<sup>1</sup> Appointed on 8 April 2011

<sup>2</sup> Appointed on 6 July 2011

## Company Secretary of the REIT Manager

Seng Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditors of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Savills Valuation and Professional Services Limited

## Principal Bankers

DBS Bank Limited  
Standard Chartered Bank  
(Hong Kong) Limited  
Sumitomo Mitsui Banking Corporation  
The Hongkong and Shanghai Banking Corporation Limited

## Legal Adviser

Baker & McKenzie  
P.C. Woo & Co

## Registered Office

Units 5508–09, 55/F, The Center  
99 Queen's Road Central  
Hong Kong

## Unit Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–16, 17/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Stock Code

The Stock Exchange of Hong Kong Limited:  
808

## Investor Relations

Tel: +852 2169 0928  
Fax: +852 2169 0968  
Email: [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk)

## Website

[www.prosperityreit.com](http://www.prosperityreit.com)

## Key Dates

Interim Results Announcement  
12 August 2011

Closure of Register of Unitholders  
for Interim Distribution (both days  
inclusive) 31 August – 5 September 2011

Payment of Interim Distribution  
9 September 2011

*This interim report (in both English and Chinese versions) ("Interim Report 2011") has been posted on Prosperity REIT's website at [www.prosperityreit.com](http://www.prosperityreit.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). Unitholders who have chosen to rely on Prosperity REIT's Corporate Communications (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) posted on Prosperity REIT's website in lieu of the printed copies thereof or who for any reason have difficulty in receiving or gaining access to the Interim Report 2011 posted on Prosperity REIT's website may request the printed copy of the Interim Report 2011 free of charge.*

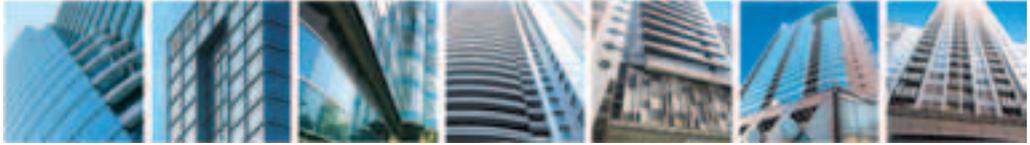
*Unitholders may at any time change their choice of language and/or means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) of Prosperity REIT's Corporate Communications by notice in writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, or by email at [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk).*

*本中期報告(「二零一一年中期報告」)中英文版本均已於泓富產業信託網站 [www.prosperityreit.com](http://www.prosperityreit.com) 及香港聯合交易所有限公司網站 [www.hkexnews.hk](http://www.hkexnews.hk) 登載。選擇依賴泓富產業信託在其網站登載之企業通訊(包括但不限於年報、中期報告、會議通告、上市文件、通函及代表委任表格)而非印刷本之基金單位持有人，或因任何理由於收取或接收登載於泓富產業信託網站之二零一一年中期報告時遇有困難之基金單位持有人，可要求免費索取二零一一年中期報告之印刷本。*

*基金單位持有人可向泓富產業信託之基金單位過戶登記處香港中央證券登記有限公司(地址為香港皇后大道東183號合和中心17M樓)發出書面通知或電郵至 [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk)，隨時更改其對有關企業通訊的語文版本及／或收取方式(即印刷本或透過泓富產業信託網站收取電子版本)之選擇。*

# Portfolio Map

## 物業分佈圖



**1** The Metropolis Tower  
都會大廈

**5** Trendy Centre  
潮流工貿中心

**2** Prosperity Millennia Plaza  
泓富產業千禧廣場

**6** Prosperity Center\*  
創富中心\*

**3** Harbourfront Landmark\*  
海名軒物業\*

**7** New Treasure Centre\*  
新寶中心\*

**4** Prosperity Place  
泓富廣場



\* Portion 部份



[www.prosperityreit.com](http://www.prosperityreit.com)



Prosperity REIT is managed by  
ARA Asset Management (Prosperity) Limited

泓富產業信託  
由泓富資產管理有限公司管理

